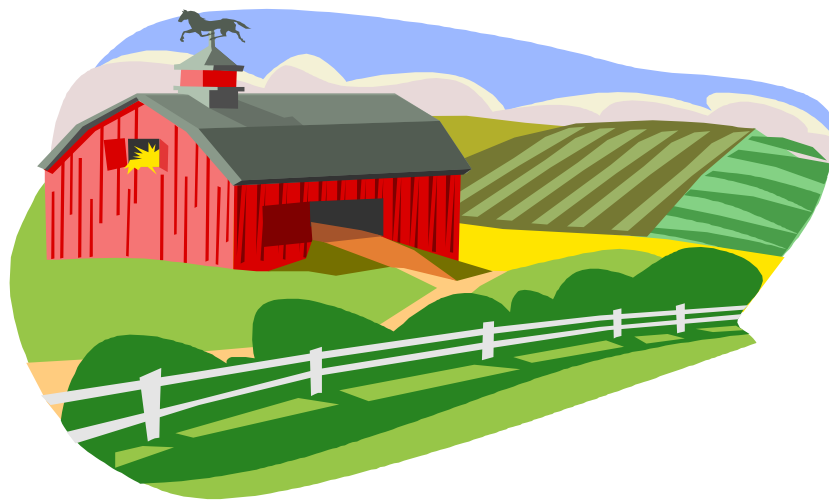


Alternative Agricultural Strategy For Indiana Tobacco Producing Counties

Prepared for the

**State of Indiana
Office of the Commissioner of Agriculture**



By
STRATEGIC DEVELOPMENT GROUP

Bloomington, Indiana
March 15, 2001

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BENEFITS

- ❑ Increased educational levels in rural communities are anticipated because of the added educational programs and the pertinence these programs will have in the lives and careers of individuals.
- ❑ Increased tax revenues for state and local government units will result from additional earnings and investment.
- ❑ Increased existence of value added agricultural enterprises will develop as new resources, new markets, and new business opportunities develop.
- ❑ Increases in both agricultural and non-agricultural opportunities for young Hoosiers will develop through better, broader, and more accessible education.
- ❑ Preservation of rural lifestyles and values will be accomplished by keeping small farm operations economically competitive and providing the resources and markets to help them succeed.
- ❑ Rural activities will contribute to the preservation and diversification of rural landscapes and farmland.
- ❑ Indiana's rural communities, agricultural products, and agricultural services will remain competitive and increase market shares.
- ❑ Communities that are drifting away from farm heritage will be encouraged to revisit agricultural roots and participate in land and ag based enterprises.

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Executive Summary

In 1999, SDG was commissioned to assess the economic impacts to the state of Indiana as a result of the anticipated reduction of tobacco production. Upon the Commissioner of Agriculture's review of the findings, the negative impacts were judged significant enough to justify a preliminary investigation into alternative economic strategies to help Indiana communities and farmers adjust to the change.

SDG's charge was to identify and evaluate methods and resources to accomplish this task and to assess the receptiveness and appropriateness of programs, ideas, and projects. Our review and compilation of the information as presented in this report indicates that:

- ❑ There is intense interest in the agricultural community for developing profitable new crops and processes,
- ❑ There is an equally intense interest in Southern Indiana communities in efforts to keep their agricultural sectors prosperous and profitable,
- ❑ There are numerous organizations, institutions, and individuals already working in the development of new crops and new processes,
- ❑ The interest in profitable alternative crops and value added processes is state wide.
- ❑ A coordinated and adequately funded strategy, including the development of new programs as well as the expansion and enhancement of existing programs, could make significant headway in the advancement of Indiana agriculture at all levels and throughout all 92 counties.
- ❑ Programs and services should be initially directed and implemented where the greatest and most immediate needs exist, i.e., Southern Indiana tobacco growing counties. Tobacco farmers and communities should be given preference, but no

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one should be excluded from participating in any program offered as part of this strategy. The long term goal is for all of Indiana agriculture to benefit from the successes achieved and lessons learned from this process.

A key element to the success of the program is education. It will be necessary to educate the general public on the existence and benefits of the alternative strategy as it will also be necessary to educate participants on new techniques and new attitudes. These educational benefits will be brought to rural and southern Indiana, areas already recognized as having educational needs.

Many of the proposed strategic elements and programs have already been demonstrated and proven on other parts of the United States. These existing programs or strategies provide models and resources for the Indiana plan. In addition, previous programs will also save the Hoosier state millions of dollars in research costs. Organizational and programmatic elements of the strategy are outlined in this report. In essence, the strategy requires:

- ❑ The establishment and funding of programs and services through existing organizations and resources,
- ❑ Integration, coordination, and cooperation throughout agricultural areas with a common focus on alternative products and value added processes,
- ❑ Development of a support infrastructure of educational, monetary, talent, and physical resources to support alternative production options and value added processes,
- ❑ The inclusion of outside and non-agricultural resources for specific and appropriate strategy elements.

There will be several benefits from this strategy. Individuals will have new opportunities for new careers and futures. Communities will develop and attract new businesses. The State will increase its fiscal and intellectual capital. Existing organizations, research efforts, and agricultural initiatives will receive additional encouragement, purpose, and resources to advance their work.

Among the anticipated benefits are:

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- ❑ Increased educational levels in rural communities
- ❑ Increased existence of value added agricultural enterprises
- ❑ Stabilization and increases in tax revenues
- ❑ Increases in both agricultural and non-agricultural opportunities for young Hoosiers.
- ❑ Preservation of rural lifestyles and values

The estimate cost of the proposed strategy is \$28,900,000 over an initial four-year period. A budget is developed for a fifth year to indicate how some elements of the strategy will be phased out as the strategy accomplishes its objectives. The primary elements of the strategy are:

- ❑ Fund the Alternative Strategy Through the Tobacco Farmers and Rural Community Impact Fund.
- ❑ Identify Lead Agent or Organization to Implement Strategy.
- ❑ Develop Integrated Marketing Strategy.
- ❑ Develop an Overall Communication / Education Plan.
- ❑ Establish Linkages Among Research, Education, and Development Organizations and Programs.
- ❑ Develop incubators for value added businesses, including certified kitchens.
- ❑ Develop New Advisory / Mentoring Networks.
- ❑ Establish programs of Grants and Loans.
- ❑ Utilize Appropriate Non Agricultural Alternatives.

The strategy is designed to integrate with current efforts to advance Indiana agriculture. Needs created by the tobacco reduction determine the nature of Ag based programs and services. Needs in other agricultural sectors are also being met to help develop a stronger future for agriculture in the Hoosier state.

Matching Needs With Program Elements

Future of Agriculture in Indiana

Other Agricultural Sectors

Corn, soybeans, grain, pork, cattle, dairy, poultry, etc

Needs Created by Low Ag Commodity Prices

Similar throughout Indiana

Impacts on individuals, families, businesses, communities

Retain sources of incomes

Ag Based Programs and Services

Replicable throughout Indiana

Directed at those most affected

Cost competitive agricultural alternatives

Needs Created by Tobacco Reduction

Similar throughout Southern Indiana

Direct impacts on individuals, families, businesses, communities

Retain sources of incomes

Introduction

Strategic Development Group was engaged by the Office of the Commissioner of Agriculture to investigate alternative economic development / stabilization strategies for Indiana counties affected by the pending decreases in tobacco production. Though tobacco constitutes a relatively small percentage of the state's total agricultural output, it is a significant economic element of the counties, communities, and individuals involved in the tobacco industry.

SDG set out to develop a plan that would meet criteria of community leaders, agricultural experts, and tobacco farmers. With many organizations involved in agricultural research and development, it was also important to include those efforts in our proposed strategy. Though there is still work to be done, this report outlines a strategy that is practical, implementable, and affordable for Indiana as the state deals with the economic impacts of reduced tobacco production.

SDG's approach began with an open consideration of all possible economic development possibilities. These ranged from industrial recruitment and small business development, to agricultural alternatives such as alternative crop production and value added agriculture.

The possibilities were introduced to a steering committee of economic development professionals from throughout Southern Indiana and an agricultural development

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task force representative of the same geographic area. Input from the two diverse groups was very consistent.

Both groups agreed that in order for any proposed strategies to succeed, the proposed plan should be organized as an agricultural effort supported by agricultural and economic development resources. Members of both groups also agreed that an overall economic development approach would be too broad and would not have the local and targeted approach necessary to mitigate the impacts at the point of occurrence.

In order for the strategy to succeed and achieve local, individual, and regional objectives, a list of criteria was developed. Listed below, these criteria are the basis of the strategy and establish the direction for all strategy programs. The resulting strategy is one that is:

- Organized as, and supported by, an agricultural based network of services and programs.
Members of both input groups who represented agricultural based organizations indicated that there are many agricultural programs in place that could be accessed and targeted to the success of a practical and practicable alternative strategy. Members also indicated that many of the agricultural programs in place could benefit from efforts such as this, which ties them together and adds additional purpose to their existence.
- Developed in such a way that programs and services are replicable throughout the tobacco producing region.
Members of both input groups indicated that both the needs and resources are much the same throughout the tobacco producing region. To that extent, the consensus is that, with the help of stakeholders from throughout the region and across the state, an encompassing and transferable plan is possible. A basic overall strategy that can be tailored to meet community differences will also expedite implementation.
- Directed at communities, individuals, and institutions most involved in, and affected by, the tobacco industry.

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Members of both groups agreed that the most appropriate approach to an alternative strategy must be one that recognizes and addresses the immediate needs of those most directly impacted by reductions in tobacco production. Members also agreed that the strategy should not be exclusive of any community or agricultural groups. Tobacco growers, their immediate families, communities, and organizations most affected should be given preference but not granted any exclusive privileges. Recognizing the many challenges to small and/or family farms, the groups agreed that there are many Hoosiers who could potentially benefit from the new strategy. The value of making a program available to future generations of small farmers was noted as very important to the Indiana lifestyle and culture.

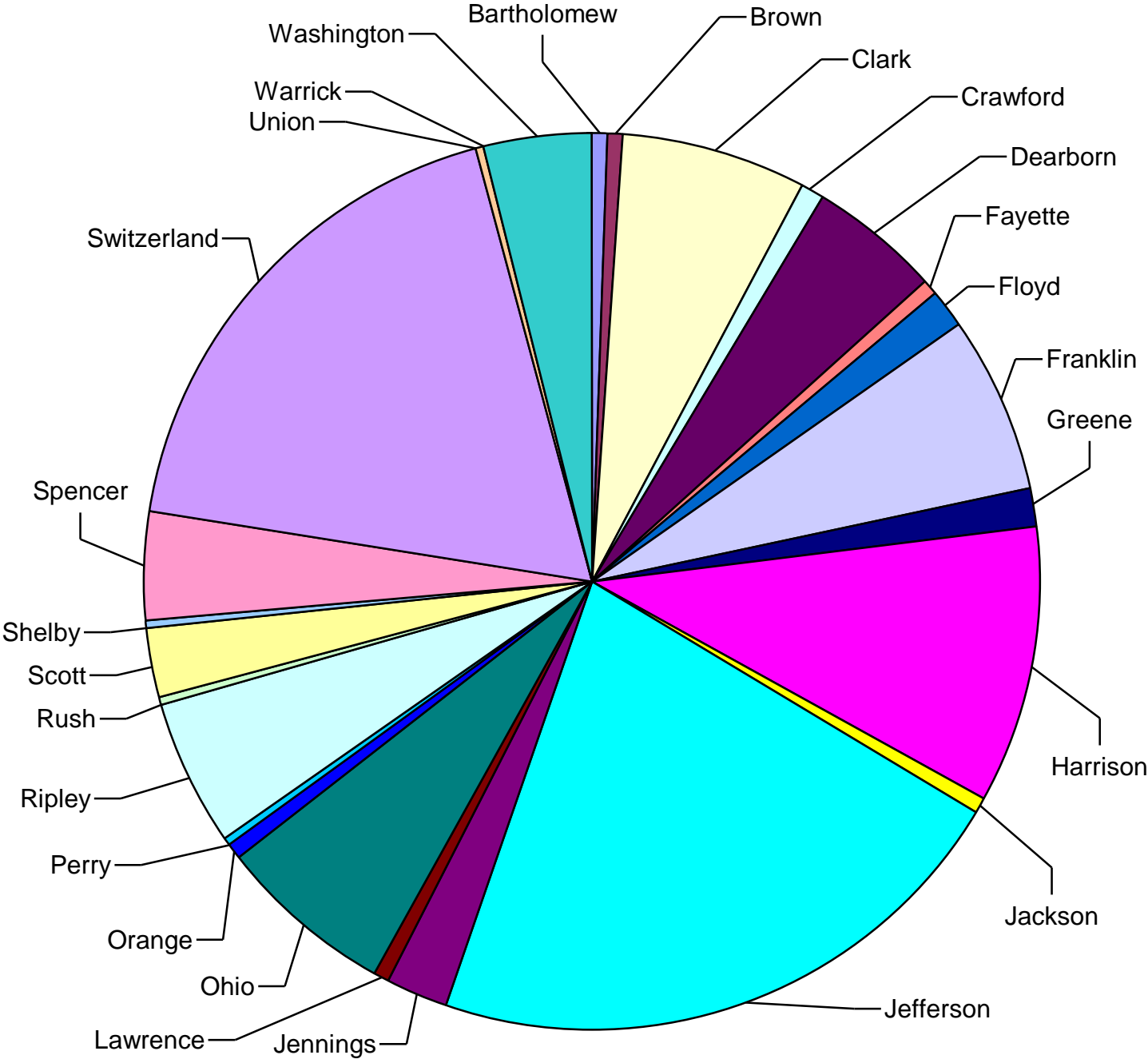
- A reasonably competitive alternative to the income produced by tobacco farming. Cost competitiveness may present one of the most difficult challenges. The strategy must appeal to the business aspects of farming as much as to the cultural aspects. The strategy should also recognize the additional risks of raising such perishable products as vegetables compared to non-perishable tobacco.
- Introduced in Southern Indiana first. The long-term goal of the resulting program should be to develop a strategy, which is replicable among, and transferable to, all members of the Indiana agricultural community.

The needs of Southern Indiana are apparent. Farms tend to be smaller in size and the topography is less amenable to Indiana's primary row crops, corn and soybeans. At the community level, and especially in tobacco producing counties, economic alternatives to farming are fewer and less productive. Industrial employment and output are generally smaller throughout rural Southern Indiana than in most other parts of the state.

The needs of Indiana agriculture are also apparent. Farmers have been plagued by low and falling prices while the costs of production increase. Alternatives for all of Hoosier agriculture are deemed as very desirable.

Members of the input groups also agreed that a proposed strategy should also be consistent with the existing legislation regarding types of assistance to be developed for tobacco producing communities.

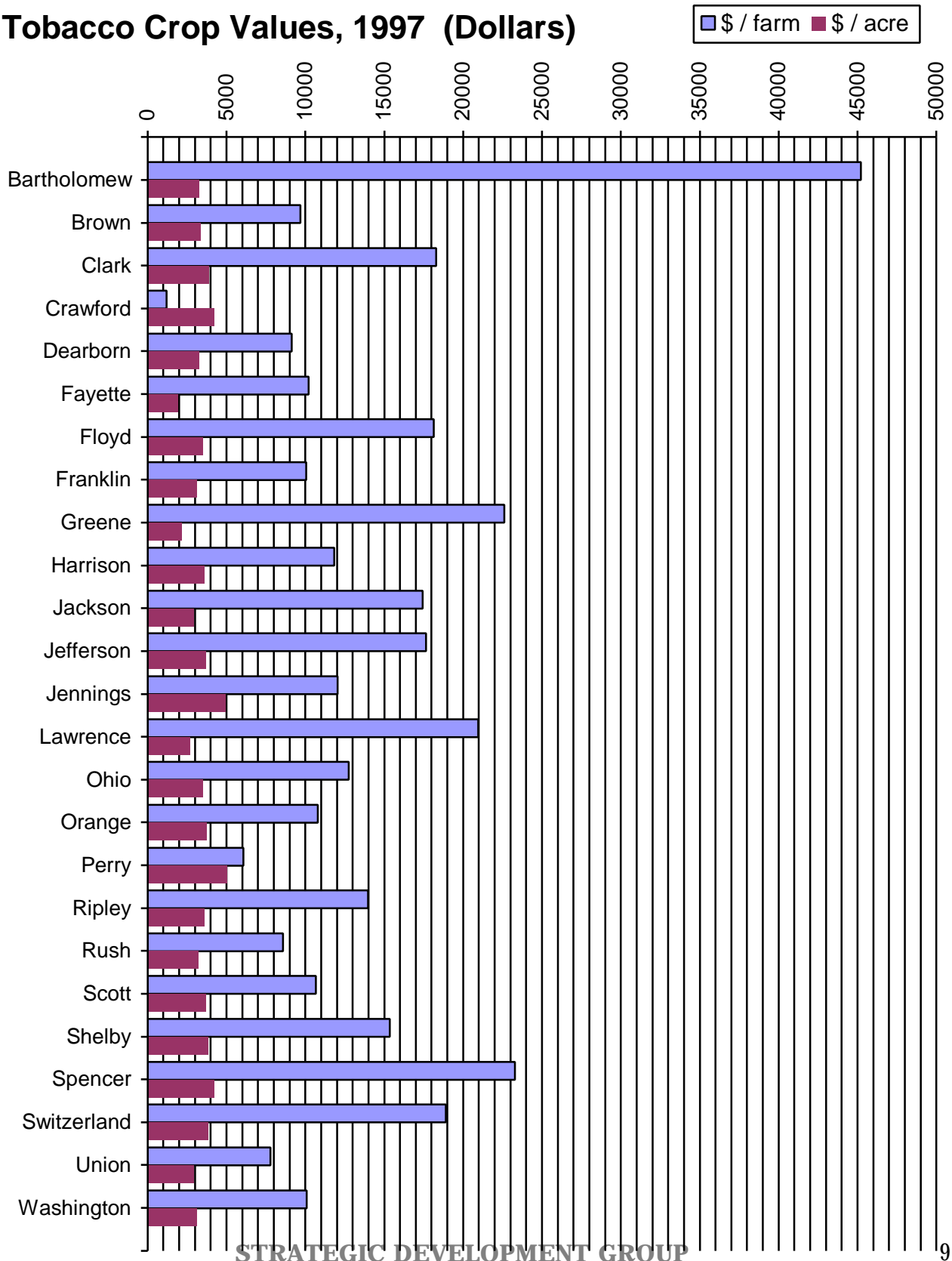
County Distribution of Indiana Tobacco Farms



Source: USDA Census of Agriculture, 1997

The Tobacco Reduction

Tobacco Crop Values, 1997 (Dollars)



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Expectations of Reduced Tobacco Production in Indiana

Indiana's 1999 burley tobacco production, at 11.7 million pounds, was 31 percent below 1998. Tobacco acreage, at 6,500, was down 24 percent from 1998. The average yield per acre was 1,800 pounds, down 200 pounds from a year earlier.

The top tobacco producing counties in the State of Indiana according to statistics from the U.S. Department of Agriculture are listed below. Jefferson County continues to be the state's leader in total tobacco production, followed closely by Switzerland County.

Indiana Tobacco Farms and Acreages, 1997 <i>Source, USDA Census of Agriculture, 1997</i>				
Acres	County		Farms	County
2,071	Jefferson		433	Jefferson
1,806	Switzerland		366	Switzerland
655	Harrison		201	Harrison
612	Clark		132	Ohio
478	Ohio		132	Franklin
433	Spencer		130	Clark
429	Franklin		105	Ripley
407	Ripley		97	Dearborn
269	Dearborn		79	Spencer
250	Washington		77	Washington
149	Scott		52	Scott
139	Bartholomew		48	Jennings
138	Greene		24	Greene
123	Floyd		24	Floyd
117	Jennings		16	Crawford
63	Lawrence		14	Brown
59	Jackson		12	Fayette
45	Crawford		10	Bartholomew
40	Brown		10	Jackson
35	Fayette		9	Orange
26	Orange		8	Lawrence
16	Rush		6	Rush
12	Shelby		5	Perry
8	Union		3	Shelby
7	Warrick		3	Union
6	Perry		3	Warrick
8,393	TOTAL		1999	TOTAL

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Grass Roots Impacts

Impacts to individual communities and farms will vary. Tobacco revenues per farm vary from as low as \$1,180 in Perry county to as high as \$45,200 in Bartholomew county. In over half the counties listed in this report, the average per farm revenue from tobacco is between \$10,000 and \$20,000.

Economic Impact Measures					
<i>Based on USDA Census of Agriculture, 1997, US Census, 1997 estimates</i>					
Percentage of Farms With Tobacco Production			Tobacco Income per Farm as Percentage of County Household Income		
%	County		%	County	
67.7	Switzerland		104.1	Bartholomew	
65.9	Brown		70.0	Greene	
54.4	Jefferson		60.3	Switzerland	
52.4	Ohio		59.8	Spencer	
20.1	Clark		58.3	Lawrence	
18.1	Harrison		52.4	Jefferson	
17.0	Franklin		49.8	Clark	
14.9	Scott		49.2	Jackson	
14.3	Dearborn		46.8	Floyd	
12.8	Ripley		40.0	Jennings	
12.4	Spencer		37.9	Ripley	
8.4	Washington		37.5	Shelby	
7.9	Jennings		36.5	Orange	
7.7	Floyd		34.1	Scott	
3.9	Crawford		32.8	Ohio	
2.9	Fayette		31.8	Washington	
2.7	Greene		31.0	Harrison	
1.7	Bartholomew		29.3	Fayette	
1.7	Orange		25.4	Franklin	
1.2	Jackson		24.3	Rush	
1.1	Union		22.6	Brown	
1.0	Perry		21.9	Union	
0.9	Lawrence		21.0	Dearborn	
0.9	Rush		17.7	Perry	
0.8	Warrick		4.1	Crawford	
0.5	Shelby		NA	Warrick	

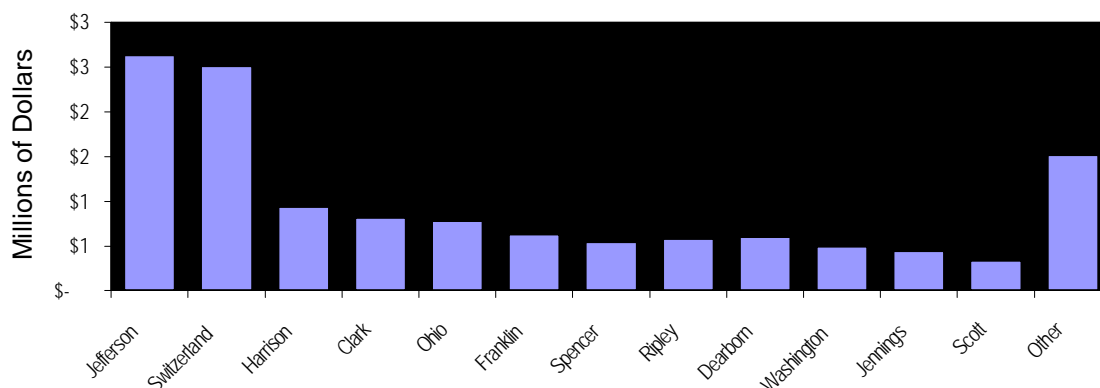
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Production and Income Comparisons, 1997						
<i>Source: USDA Census of Agriculture, 1997</i>						
County	Indiana Farms			Indiana Counties		
	With Tobacco	Total farms	%	Average Tobacco Income \$	Average Household Income \$	%
Bartholomew	10	577	1.7	45,219	43,444	104.1
Brown	14	173	65.9	9,688	42,891	22.6
Clark	130	647	20.1	18,304	36,729	49.8
Crawford	16	410	3.9	1,187	28,679	4.1
Dearborn	97	679	14.3	9,128	43,559	21.0
Fayette	12	420	2.9	10,195	34,737	29.3
Floyd	24	310	7.7	18,150	38,808	46.8
Franklin	132	776	17.0	10,050	39,604	25.4
Greene	24	878	2.7	22,605	32,293	70.0
Harrison	201	1,108	18.1	11,830	38,204	31.0
Jackson	10	809	1.2	17,444	35,440	49.2
Jefferson	433	796	54.4	17,636	33,630	52.4
Jennings	48	605	7.9	12,059	32,121	40.0
Lawrence	8	875	0.9	20,959	35,933	58.3
Ohio	132	252	52.4	12,759	38,937	32.8
Orange	9	531	1.7	10,775	29,491	36.5
Perry	5	484	1.0	6,078	34,365	17.7
Ripley	105	821	12.8	13,974	36,854	37.9
Rush	6	663	0.9	8,593	35,434	24.3
Scott	52	348	14.9	10,677	31,306	34.1
Shelby	3	641	0.5	15,360	40,915	37.5
Spencer	79	638	12.4	23,286	38,960	59.8
Switzerland	366	541	67.7	18,895	31,355	60.3
Union	3	268	1.1	7,796	35,644	21.9
Warrick	3	356	0.8	NA	47,588	NA
Washington	77	914	8.4	10,076	31,668	31.8

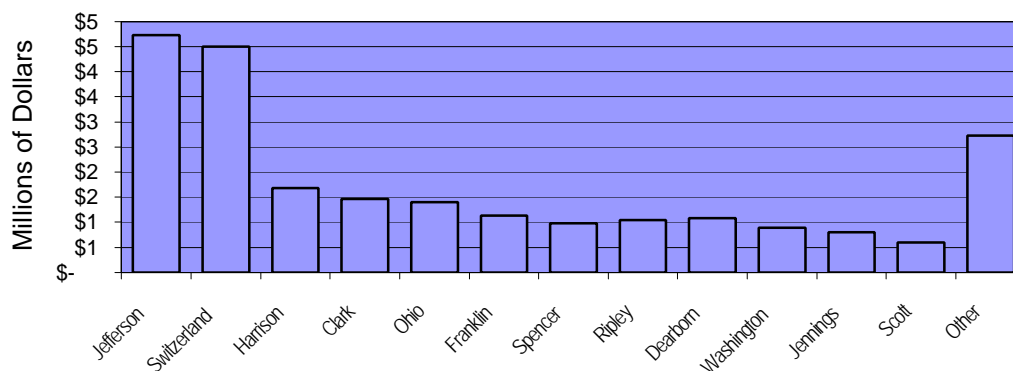
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The Southern Indiana economy will experience declines in three major areas as a result of the tobacco reductions. When the reduction hits 50%, approximately 570 jobs will be lost. Labor income, wages paid to individual workers will decline by \$12.8 million dollars. The value of agricultural output will decline by \$23.0 millions dollars. Tax revenues of state and local governments will decline by approximately \$4.5million per year. (Source: SDG: Economic Impact Analysis Report for the Indiana Economic Development Council, January, 2000)

Labor Income Impact of 50 Percent Reduction in Tobacco Production



Output Impact of 50 Percent Reduction in Tobacco Production



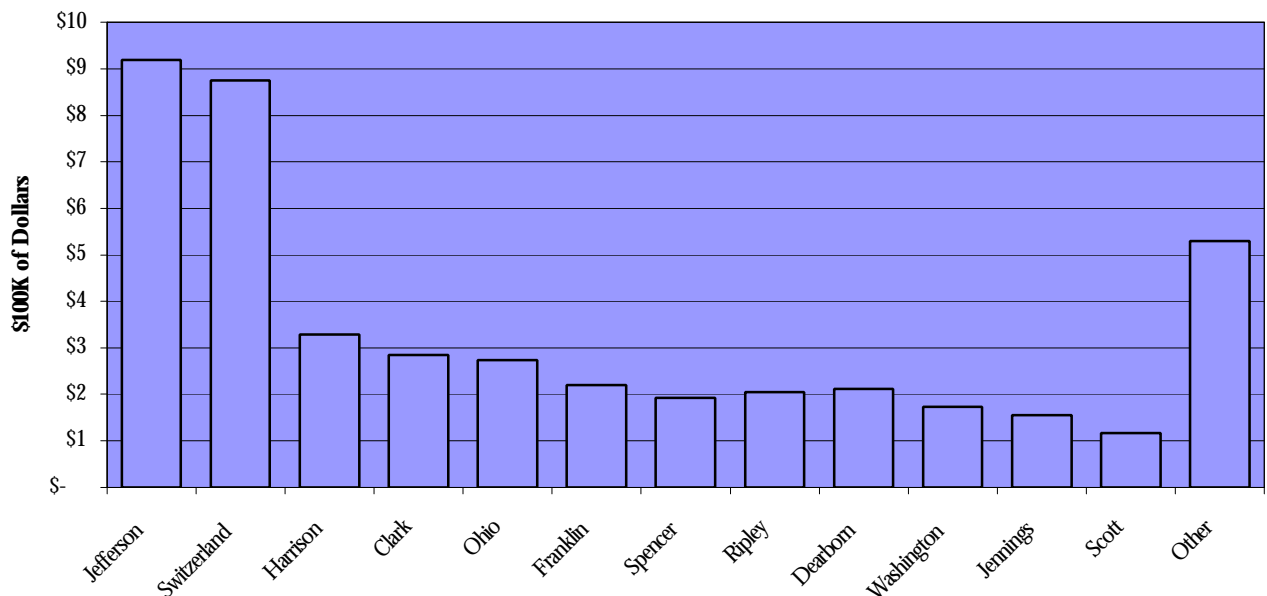
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The Tobacco Settlement

Under the terms of the 1998 multi-state settlement agreement, the tobacco industry paid Indiana an initial amount of \$49 million in 1998. Beginning in 2000 and each year thereafter, Indiana is scheduled to receive a payment between \$130.8 and \$171.2 million, subject to various factors that may increase or decrease the payment.

Indiana is also part of a separately negotiated settlement with the tobacco industry that provides a total of \$5.15 billion to the National Tobacco Growers Settlement Trust Agreement. This settlement, called Phase 2, additionally provides up to \$59.7 million over 12 years directly to Indiana tobacco growers.

Tax Revenues Impact of 50 Percent Reduction in Tobacco Production



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Over the next 25 years, as a result of the National Tobacco Settlement, the State of Indiana will receive nearly \$4 billion. These funds, commonly referred to as Phase I monies, are detailed below.

<i>1998</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
\$48,955,278	\$130,787,086	\$141,229,043	\$169,574,859
<i>2003</i>	<i>2004 to 2007</i>	<i>2008 to 2017</i>	<i>2018 to 2025</i>
\$171,179,702	\$142,867,821	\$145,703,147	\$163,265,853

Payments detailed above are annual payments; for multiple years, e.g., 2004 to 2007, the noted payments occur within each of the associated years.

Indiana's allocation of its tobacco settlement payments provides \$112.5 million of the tobacco settlement funds in FY 2001. Legislation, which took effect July 1, 2000, allocated \$35 million to smoking cessation and prevention efforts. An executive advisory committee was established to decide how to spend the funds. The committee will have an executive director, four state officials, eleven members appointed by the Governor who have knowledge of smoking cessation or healthcare, and six members from tobacco control groups.

In addition to the tobacco prevention program, the law designates \$20 million for low-income senior citizens' prescription drug costs, \$25 million to community health centers in rural and inner-city areas, \$28 million to children's health insurance and \$4.5 million to county health boards. These allocations are part of the first-year plan, in which half the settlement payments will be spent and the other half will be invested. In the future, 60% will be available for appropriation and 40% will be invested.

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In 1999, Governor O'Bannon supported a legislative initiative to allocate 50% of the initial (1998) and year 2000 settlement payments for the Children's Health Insurance Program (CHIP). The state budget released up to \$47 million dollars of the initial settlement payment for the CHIP program and spent the remaining settlement money in 1999 as part of the state's general fund.

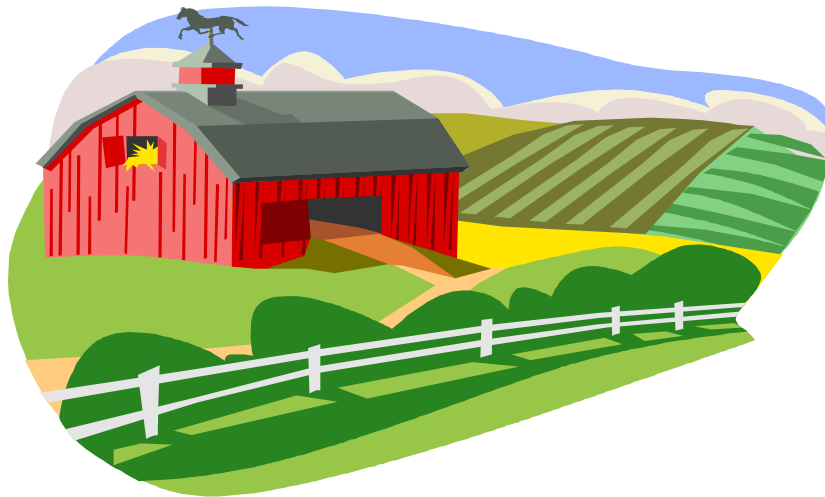
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Indiana Tobacco Production, 1997						
<i>Source, USDA Census of Agriculture, 1997</i>						
County	Farms	Acres	Pounds Harvested	Approx \$ Value*	\$ Impact per	
					Farm	Acre
Bartholomew	10	139	251,221	452,200	45,219	3,250
Brown	14	40	75,354	135,640	9,688	3,391
Clark	130	612	1,322,013	2,379,600	18,304	3,888
Crawford	16	45	105,572	190,000	1,187	4,222
Dearborn	97	269	491,910	885,420	9,128	3,291
Fayette	12	35	67,970	122,340	10,195	1,942
Floyd	24	123	242,000	435,600	18,150	3,541
Franklin	132	429	736,930	1,326,470	10,050	3,092
Greene	24	138	301,405	542,520	22,605	2,184
Harrison	201	655	1,321,117	2,378,000	11,830	3,630
Jackson	10	59	96,913	174,440	17,444	2,956
Jefferson	433	2,071	4,242,616	7,636,700	17,636	3,687
Jennings	48	117	321,593	578,860	12,059	4,947
Lawrence	8	63	93,154	167,670	20,959	2,661
Ohio	132	478	935,703	1,684,260	12,759	3,523
Orange	9	26	53,876	96,970	10,775	3,729
Perry	5	6	16,886	30,390	6,078	5,065
Ripley	105	407	815,207	1,467,370	13,974	3,605
Rush	6	16	28,646	51,560	8,593	3,222
Scott	52	149	308,462	555,230	10,677	3,726
Shelby	3	12	25,600	46,080	15,360	3,840
Spencer	79	433	1,022,007	1,839,600	23,286	4,248
Switzerland	366	1,806	3,842,110	6,915,790	18,895	3,829
Union	3	8	12,994	23,380	7,796	2,922
Warrick	3	7	NA	NA	NA	NA
Washington	77	250	431,047	775,880	10,076	3,103
All other Indiana counties	18	57	NA	NA	NA	NA
Indiana Total, 1997	2017	8507	17,275,291	31,095,520	15,416	3,655

* Estimated at \$1.80 per pound

Description of Proposed Alternative Strategy

The proposed alternative agricultural strategy attempts to provide effective and efficient options to help communities and farmers in a changing agricultural economy. The plan includes many activities and programs already in place and adds impetus to numerous existing organizations and institutions.



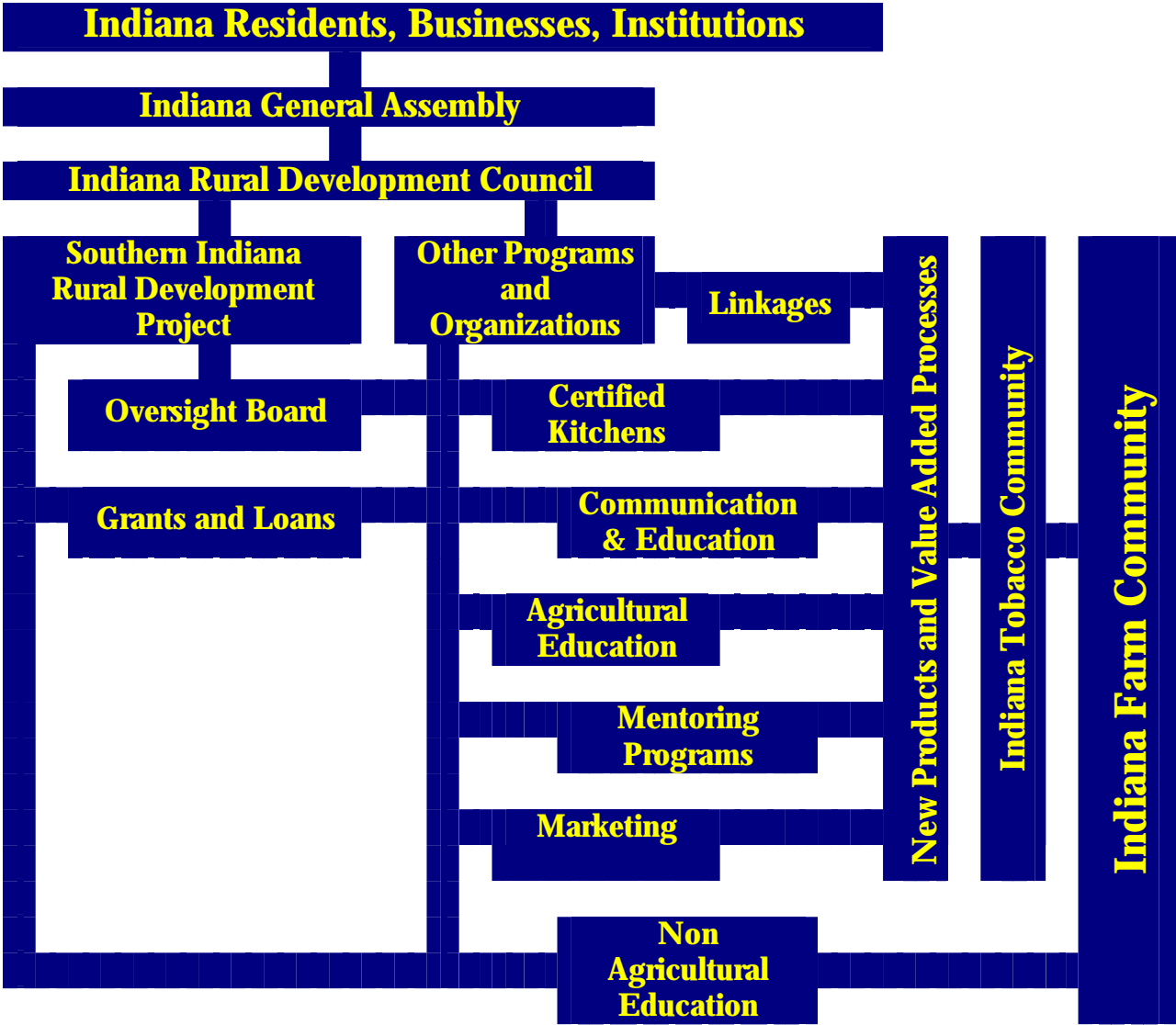
The plan, developed in cooperation with agricultural and economic development professionals, provides opportunity for many organizations, institutions, and individuals. It is a framework within which many in the agricultural community and the community at large will be brought together for their common benefit. Within the framework should be an entire system of production, marketing, education, communication, and re-evaluation to allow the program to approach, if not reach, a level of self sustainability. Each element of the plan will require additional study and development due to the complexity of the elements and the numerous interrelationships among programs and service providers. Each of the elements of the plan is discussed in detail in subsequent sections of this report. These program elements include:

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- ❑ Fund the Alternative Strategy Through the Tobacco Farmers and Rural Community Impact Fund.
- ❑ Identify Lead Agent or Organization to Implement Strategy
- ❑ Develop Integrated Marketing Strategy
- ❑ Develop an Overall Communication / Education Plan
- ❑ Establish Linkages Among Research, Education, and Development Organizations and Programs
- ❑ Develop a network of Community Certified Kitchens
- ❑ Develop New Advisory / Mentoring Networks
- ❑ Establish programs of Grants and Loans
- ❑ Utilize Appropriate Non Agricultural Alternatives

An Integrated Approach to Prosperity

Flow Diagram for the Proposed Alternative Agricultural Strategy



How the Work Gets Done

Alternative Strategy Management Outline



Fund the Alternative Strategy Through the Tobacco Farmers and Rural Community Impact Fund

The Indiana legislature has already approved the concept of providing assistance to the Hoosier state's imperiled tobacco industry. The proposed strategy meets every requirement of Section 3 of the fund legislation which dictates how the money in the fund shall be used.

The legislation, however, does not include a means of funding for this portion of Indiana's tobacco laws. Our recommendation is to fund the program over a period of four years as outlined in the program budget presented later in this report. As mentioned in the legislation, the fund includes assistance to the Indiana Rural Development Council. Our recommendation here is that the IRDC be appointed as the fiscal agent for the funds.

With the IRDC as fiscal agent, Indiana has the interest and means to transfer successful strategies developed under this program to other areas of rural Indiana.

Identify Lead Agent or Organization to Implement Strategy

With numerous and qualified agencies and organizations in place, there does not seem to be a need to create a new bureaucracy to implement any of the alternative strategies. Inasmuch as the Southern Indiana Rural Development Project already has projects, task forces, and other organizational resources in place to implement the strategy, we recommend that the SIRDP be the prime contractor for program implementation and management. The Southern Indiana Rural Development Project is a 501(c)3 organization and should be responsible for all staffing and programming activities.

The entire strategy program and related elements should be governed by an oversight board. This board should consist of representatives from agriculture, local government, education, economic development, and small business development. A process for appointments to this board has yet to be created and the initial board members could be selected from members of the two advisory groups listed in the appendix of this report.

In this plan, responsibility and accountability flow upward to the State of Indiana through a logical process. From program participants and beneficiaries where services are delivered, the effectiveness and appropriateness is monitored, revised, and directed as necessary by the steering committee.

- The oversight board reports to the board of directors of SIRDP. The steering committee is also the conduit of technology transfer and communication dissemination from governors of the program to users of the program.

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- The SIRDП receives money for programs from the IRDC. SIRDП manages the budget and disperses funds to the respective programs and beneficiaries. SIRDП reports on progress, finances, and programs to IRDC.
- The IRDC reports directly to the Indiana General Assembly. IRDC's role is to monitor the program for processes, programs, and other developments of the alternative strategy that can be implemented on a state-wide basis.
- The Indiana General Assembly has its obligation to the voters of Indiana. The assembly's endorsement and funding of the alternative strategy program will help the Indiana agricultural economy, strengthen communities, empower workers, and help preserve rural cultural and social values.

Organizational Hierarchy

Communications Channels for the Alternative Strategy



Develop Integrated Marketing Strategy

The marketing strategy should be diverse and comfortably integrated into current community lifestyles and local business mixes. The diversity should allow for a combination of local, regional, and national product outlets and should support numerous and varied agri-enterprises.

Expand On The Existing Network Of Indiana CSA Farms.

Community Supported Agriculture is a growing practice throughout the United States. CSA farms provide farmers with opportunities and markets for both alternative crops and value added processes. Community Supported Agriculture also strengthens bonds between the agricultural community and surrounding non-agricultural communities. There are many models and examples of successful CSA farms each providing unique characteristics and benefits. Expansion of the Indiana CSA network will require extensive additional research and the development of a support and educational system to get them into production.

CSA farms provide the structure within which a transition from tobacco to other crops can be made. Through CSA, tobacco growers will be able to pre-establish markets and outlets for their crops. By structuring the transition in the CSA model, tobacco growers may also have the opportunity to fund their costs of production in advance through "subscriptions". Subscriptions are advance payments paid by CSA "members" in exchange for a portion or percentage of the crop yield. In some CSA models, the "members" also participate in the labor involved in crop production.

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Regional Farmers Markets

Regional farmers markets should provide marketing outlets at both the wholesale and retail levels. SIRDPA is already in the process of conducting a market assessment of a regional facility in the southern part of the state. Other regional facilities should be investigated using the same market assessment / feasibility study process.

In the short term, communities and farmers should maximize the use of existing roadside markets and community farmers markets.

Market Development Specialists

The regional farmers markets and CSA farms will be supported by specialists in market development. One or two Wholesale / Institutional Marketing Specialists should be employed to work with supermarkets and institutional customers. The marketing specialists should have geographically oriented territories and might be recruited from retired voc-ag teachers, county agents, farmers, and other food marketing or food processing professionals.

Develop Tourism Potential for New Facilities and Activities

The combination of new agricultural facilities, processes, and programs offer opportunities for tourism development. Tourism potential should be considered in the development of any and all new facilities and new promotional or marketing activities.

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Subsidies for Agricultural Infrastructure

New agricultural infrastructure may consist of utilities services, buildings, and equipment. Value added incubators, facilities, and certified kitchens, as described later, may also become part of the new ag infrastructure.

Telecommunications

Telecommunications, Internet access, and computer systems have become vital implements of the modern farm. Plans and funds to support telecommunications services are mandatory for rural Indiana.

All elements of the proposed strategy will be tied together, and many will be managed by, telecommunications infrastructure. The plan will make immediate use of existing resources and will expand to increased use for distance learning as well as for buying and selling of products and services.

Develop an Overall Communication / Education Plan

The proposed strategy will require a paradigm shift among the agricultural community and the community at large. The communications effort should begin concurrently with the rest of the strategy development in order to get clear information to the affected and interested publics.

The communication / educational plan should specifically target tobacco farmers and communities where tobacco production is prominent. Because of the program's broader effect and appeal, communications should also be directed at other agricultural sectors and the community at large.

The strategy and its programs should be marketed to the general public. The communications element should emphasize the importance and benefits of patronizing farms and vendors that result from the new strategy. Similar elements have been implemented and can serve as models. As this element is developed, a branding strategy should be incorporated to help promote "grown, processed, or made in Indiana. A logo or trademark should be included in the campaign.

SDG suggests that the strongest program is one that is built from the ground up. One of the first steps to be taken should be the formation of the steering committee. The steering committee, in turn, should then form a farmers coalition to support the plan. Support for the plan will be generated by a comprehensive educational effort aimed specifically at the support group.

The communications element should be well coordinated explaining the benefits and opportunities associated with the proposed agricultural shifts. Research into, and

Alternative Agricultural Strategy

reporting successful and similar programs in other parts of the United States, will help build support and understanding.

Educational programs and services will require direction and development of some new purpose. Many opportunities will arise from the proposed programs.

Educational programs in food processing, marketing, small business development, entrepreneurship, horticulture, and agriculture will help build the intellectual capital to ensure a sustainable future for new agricultural alternatives.

Some programs are already in place that can have mutually beneficial relationships with the alternative strategy. Among these are the Master Gardener and Master Canner programs, Ways to Grow, NXLevel, and others. Existing programs should be evaluated to determine the mutual benefits of continuing programs as elements of the alternative agricultural strategy.

Establish Linkages Among Research, Education, and Development Organizations and Programs

Indiana hosts many agricultural based and focused organizations, institutions and activities. Each has something to offer to the success of the alternative strategy and all have the chance to gain from its success. The two main areas of focus for these organizations are profitable production and profitable value added processes. To achieve these ends, the alternative strategy should make major contributions to the following two efforts.

Advance, Expand, and Expedite Education, Training, and Research Connected with Diversified, Alternative, Specialty Crop Production

Already recognized as a key element in agricultural success, specialty crop production should also be an integral part of a successful strategy.

- The NXLevel Program and Ways to Grow are examples of existing programs available to help farmers transition into specialty crops and value added enterprises.
- Purdue University and its agricultural research centers in southern Indiana have programs in place for specialty crop development. SDG recommends that these programs be expanded and provided additional funding as part of the alternative strategy.

Increase Research, Development, Establishment, and Recruitment, of Value Added Agriculture Enterprises

It is generally recognized that the value of food commodities increases greatly after it leaves the farm. It is important to keep these processes as close to the farm and in Indiana as possible. Among the possible venues for this type of agricultural industry

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are ethnic meat production and processing, and specialty canning. Other opportunities such as direct marketing must also be developed.

Many local organizations and the State of Indiana are already involved in the recruitment of food processing industries. This alternative strategy will be both supported by and contributing to the recruitment of food processing industries.

Identify and Include Ag Trade Groups and Allied Organizations

Indiana's numerous agricultural related trade organizations represent a wealth of information, contacts, resources, and markets for the alternative strategy program. These should be made part of an integrated organizational network which combines resources to further the advancement of Indiana agriculture through the proposed alternative agricultural strategies program.

Among the organizations that should become part of the network are:

- Local chamber of commerce and economic development organizations
- Local offices of the Purdue Extension Service
- Indiana Department of Natural Resources
- Local 4-H youth programs
- Purdue Consumer and Family Sciences Extension Services

Indiana Agricultural and Business Development Organizations, Partial List

Agricultural Alumni Seed Improvement Association, Inc.	Indiana Arborist Association
Agricultural Leadership Alumni	Indiana Association Of Agricultural Educators
Center For Agricultural Science & Heritage	Indiana Association Of Consulting Foresters
Countrysmark Cooperative, Inc.	Indiana Association Of County And District Fairs
Farm Counseling Project	Indiana Association Of Professional Crop Consultants
Foremost Farms Usa	Indiana Association Of Soil And Water Conservation
Great Rivers Chapter Of The Holly Society Of America, Inc.	Districts, Inc.
Hoosier Chapter-Soil And Water Conservation Society	Indiana Bankers Association - Ag. Committee
Hoosier Hampshire Swine Breeders Association	Indiana Beef Cattle Association, Inc.
Hoosier Organic Marketing Education	Indiana Beekeepers Association
Indiana Agricultural Leadership Institute	Indiana Berkshire Association
Indiana Angus Association [Www.Indianaangus.Org]	Indiana Certified Organic, Inc.
Indiana Aquaculture Association	Indiana Chapter Of The American Ostrich Association
	Indiana Charolais Association, Inc.

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Indiana Chester White Association	Indiana Society Of Agri-Bankers
Indiana Cheviot Sheep Breeders Association	Indiana Society Of American Foresters
Indiana Chianina Association	Indiana Society Of Farm Managers And Rural Appraisers
Indiana Christmas Tree Growers Association, Inc.	Indiana Southdown Sheep Breeders Association
Indiana Columbia Sheep Breeders Association	Indiana Soybean Board
Indiana Corn Growers Association	Indiana Soybean Growers Association
Indiana Corriedale Sheep Association	Indiana Spot Breeders Association
Indiana Crop Improvement Association	Indiana State Beekeepers Association
Indiana Dairy Goat Association, Inc.	Indiana State Dairy Association, Inc.
Indiana Duroc Breeders Association	Indiana State Egg Board
Indiana Extension Educators Association	Indiana State Fair
Indiana Extension Homemakers Association	Indiana State Grange
Indiana Farm Bureau Inc.	Indiana State Holstein Association
Indiana Farm Management Association, Inc.	Indiana State Poultry Association, Inc.
Indiana FFA Association	Indiana State Rabbit Breeder's Association, Inc.
Indiana Flower Growers Association	Indiana Statewide Association Of Rural Electric Cooperatives, Inc.
Indiana Forage Council, Inc.	Indiana Suffolk Sheep Association
Indiana Forestry And Woodland Owners Association	Indiana Tobacco Growers Association, Inc.
Indiana 4-H Foundation, Inc.	Indiana Veal Association Inc.
Indiana Gelbvieh Association	Indiana Vegetable Growers Association
Indiana Gourd Society	Indiana Veterinary Medical Association
Indiana Grain And Feed Association, Inc.	Indiana Wine Grape Market Development Council
Indiana Grocery And Convenience Store Association	Indiana Wine Growers Guild
Indiana Hardwood Lumbermen's Association	Indiana Yorkshire Swine Breeders, Inc.
Indiana Hereford Association	Indiana Young Farmers' Association
Indiana Horticultural Society (Indiana's Fruit Growers)	Indianapolis Museum Of Art, Horticultural Society
Indiana Junior Charolais Association	Mid-America Equipment Retailers Association
Indiana Junior Shorthorn Association	Mid-America Food Processors
Indiana Land Improvement Contractors Association	Midstates Mule And Donkey Show Society
Indiana Landrace Breeders Association	Midwest Dairy Foods Association
Indiana Livestock Breeders Association	Midwest Grocers Foundation, Inc.
Indiana Meat Packers And Processors Association, Inc.	Midwest Regional Turf Foundation
Indiana Mint Market Development and Research Council	Milk Promotion Services Of Indiana, Inc.
Indiana Native Plant And Wildflower Society	National Farmers Organization
Indiana Nursery And Landscape Association	Organic Crop Improvement Association Purdue Agricultural Alumni Association
Indiana Nutgrowers Association	Purdue University Cooperative Extension Specialists Association
Indiana Organic Growers Association, Inc.	Southeast Indiana Beekeepers Association
Indiana Pest Control Association, Inc.	Southern Indiana Beekeeping Association
Indiana Plant Food And Agricultural Chemicals Association, Inc.	Southwest Indiana Beekeepers Association
Indiana Poland China Association	Southwest Indiana Melon And Vegetable Association
Indiana Polled Hereford Association	State Florists' Association Of Indiana
Indiana Pork Producers Association	Sustainable Earth, Inc.
Indiana Purebred Swine Breeders Council	The Garden Club Of Indiana, Inc.
Indiana Rural Safety And Health Council	The Red Poll Cattle Breeders Of Indiana, Inc.
Indiana Santa Gertrudis Association	Tri-State Azalea Society
Indiana Seed Trade Association	Turkey Market Development Council
Indiana Sheep Breeders Association, Inc.	
Indiana Sheep & Wool Market Development Council	
Indiana Shorthorn Association	
Indiana Shorthorn Lassies	
Indiana Shropshire Sheep Breeders Association	

Value Added Incubators

Much of the success of the strategy will center on the ability to add more value to food products before they either leave the state or enter the retail markets.

Incubators

There are at least two options for the development of agricultural value added incubators. Many Indiana communities already have in place small business incubators. These have the business support facilities for emerging firms but may not have the specialized facilities, expertise, and equipment for ag and food processing enterprises. One approach is to build on these existing resources.

New and separate value added incubators would provide the specialized equipment, expertise, and equipment for ag related and food processing enterprises. These facilities may or may not be linked to or include certified kitchens.

Recruitment of businesses to incubators and other facilities and sites should also be explored. The Indiana Department of Commerce and Indiana's local economic development agencies have experience and resources for this purpose. These could be enhanced by the increased infrastructural facilities and programs included in the alternative strategy. Any new business recruitment activities should be conducted in cooperation with existing organizations and resources.

Certified Kitchens

Certified kitchens are considered to be the key infrastructure investment required to make the strategy work. A certified kitchen is essentially commercial food preparation facility approved by the USDA and board of health. These facilities can be made available on a rent or lease basis to local organizations, businesses, and individuals to prepare and package food for retail sale. These facilities provide farmers with options for value added products and provide others with an affordable

Alternative Agricultural Strategy

resource on a limited basis with no capital investment. Certified kitchens combined with user certification programs augment a local food production system and make it expandable into commercial food production.

There are numerous potential users and user groups with potential interest in certified kitchens. Among these are: local food pantries, caterers, local entrepreneurs, local small food businesses, banquet services, local service clubs and organizations, and church or ethnic groups. In order to accommodate the widest range of possible users, sites and kitchens should provide adequate access and parking for personnel and shipping, facilities for food processing, refrigerated and unrefrigerated storage, facilities for loading and shipping, and an on-site manager.

The certified kitchen segment of the alternative strategy should be developed according to these general criteria:

- Identify and select two "incubator kitchen" sites in Southern Indiana. One in the south east and one in the south west.
- Purchase one mobile unit kitchen, probably built in a semi trailer. Use of the mobile unit will depend on the establishment and development of certified hook-up sites in other communities. Certified hook-up sites may be developed in the same locations where future permanent certified kitchens are planned. Certified sites will require adequate space and utilities as well as appropriate zoning.
- Establish matching grant programs for sharing of the development costs. Grants from the alternative strategy budget could be matched and leveraged by local and regional organizations or benefactors.
- Involve community foundations and local human service organizations to the greatest extent possible. Local kitchen facilities, educational programs, and products could be directed to meet educational, workforce development, and human service needs in communities.
- Exploit the tourism value related to public interest in viewing food processing and packaging operations and/ or visiting unique sites and facilities.

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- Look for "logical" sites for both kitchens and hook-up sites. These may include old schools and churches, other abandoned or underutilized institutions such as government and military facilities, and redevelopment areas.

Certified kitchens should be started as subsidized community facilities. Long term plans may be developed for later conversion to separate not-for-profit status or transition to for-profit enterprises.

A stratification of new agri-industry could evolve. As specialization has occurred in the manufacturing sectors, the same could occur in the local ag sector. Participants might gravitate toward production, processing, research, or marketing. This will promote better integration of agriculture in the community and will help maintain rural cultures, lifestyles, values, family farms, and work ethic.

Develop New and Expand Existing Advisory / Mentoring Networks

Members of the two advisory groups have insisted that one-on-one counseling and mentoring will be necessary to advance some of the program participants through the transitioning process. Mentors with specific skills and knowledge will be identified and dispatched to help participants understand changes and implement new operations.

Using the Service Corps of Retired Executives (SCORE) as a model, it is important to develop a knowledge infrastructure to address the unique needs of agriculture. An Agri-SCORE group should include persons with experience in agriculture, food preparation and packaging, retail sales and marketing, and business development and organization. A method of organization and recruitment has yet to be developed and the mentor program should also include methods of continually identifying and recruiting new mentors into the network.

Ways to Grow includes an expandable mentoring component. This component should be evaluated and then compared and contrasted to SCORE programs to identify the best and most suitable elements of each. The resulting mentorship program may be one or the other of SCORE or Ways to Grow, or possibly a combination and refinement of the two separate programs.

Grants and Loans

SDG proposes specific financial incentives, in the forms of grant and loans, that will contribute to the success of the strategy and directly impact individuals and organizations. These recommended programs will both contribute to the advancement of Indiana agriculture and add to the intellectual capital of the state's population. Some grants and loans should be developed as matching programs to leverage other financial resources.

Grants and loans should be made available to individuals and organizations wishing to participate in the program. Preference should be given to tobacco farmers and their immediate families, but no one should be excluded from participation.

Scholarships to NXLevel Program

The NXLevel program is specifically aimed at helping farmers develop value added agricultural enterprises. The relative significant cost of the program may be a deterrent to some farmers and a scholarship program subsidizing this cost will help more ambitious and creative agri-business persons get the training necessary for their future success.

Grant and Loans for Ag Related Enterprises

Existing resources for financial assistance should be directed toward participants in the program and achievement of the program's objectives. New and targeted programs may be developed as necessary. Grants and loans for innovation in agriculture, food production, or food processing are other possible assets for the strategy.

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Educational Grants and Loans

The alternative agricultural strategy should also be consistent with Indiana's overall goals of increasing the value of education. Preference should be given to tobacco farmers and their immediate families. Second in priority should be other farmers, and third in priority should be other interested persons.

Grants to education service providers should also be considered. Grants to fund new and innovative programs in public and private schools will help pay for equipment, supplies, programs, and other necessities for expanding and improving agricultural and related education.

Next Generation Scholarships

Scholarships to children of displaced tobacco farmers should be made available for both agricultural and non-agricultural education. With the ever increasing efficiency of agriculture, fewer persons are needed in the ag workforce. Next Generation Scholarships will provide the means to an alternative future for young Hoosiers who elect not to remain in agriculture.

Non Agricultural Alternatives

SDG's process began with a broad choice of economic development alternatives, programs, and activities. These ranged from modest and indirect assistance such as providing additional resources to local libraries, to the possibilities of large public investments in infrastructure.

SDG investigated other alternative strategies not related to agriculture. Our research indicates that non-agricultural alternatives are already available from a number of sources, including the Indiana Department of Commerce, states colleges and universities, small business development centers, area vocational schools, local economic development organizations, local chambers of commerce and others. As part of the overall program, employment and business development opportunities not related to agriculture should be communicated to the target tobacco industry market.

There are many non-agricultural resources that have potential to contribute to the success of the strategy. These include small business development centers, local economic development organizations, schools, and departments of state government.

Potential Results and Outcomes

There are many possibilities associated with the success of the proposed strategy. Diversification of Indiana's agriculture and overall economy will contribute to greater stability in the future for the state, its communities, and its citizens.

Investment in the program will bring about broad and varied benefits to citizens and communities.

- ❑ **Increased educational levels in rural communities are anticipated because of the added educational programs and the pertinence these programs will have in the lives and careers of individuals.**
- ❑ **Increased tax revenues for state and local government units will result from increased earnings and investment.**
- ❑ **Increased existence of value added agricultural enterprises will develop as new resources, new markets, and new business opportunities develop.**
- ❑ **Increases in both agricultural and non-agricultural opportunities for young Hoosiers will develop through better, broader, and more accessible education.**
- ❑ **Rural activities will contribute to the preservation of rural lifestyles and values will be accomplished by keeping small farm operations economically competitive and providing the resources and markets to help them succeed.**
- ❑ **Preservation and diversification of rural landscapes and farmland.**
- ❑ **Indiana's rural communities, agricultural products, and agricultural services will remain competitive and increase market shares.**
- ❑ **Communities that are drifting away from farm heritage will be encouraged to revisit agricultural roots and participate in land and ag based enterprises.**

Project Time Table and Budget

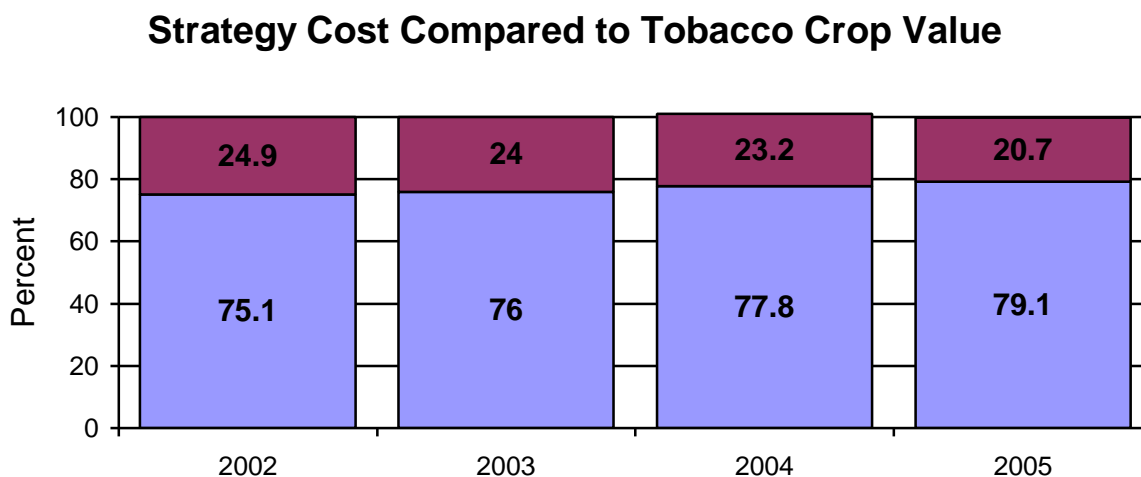
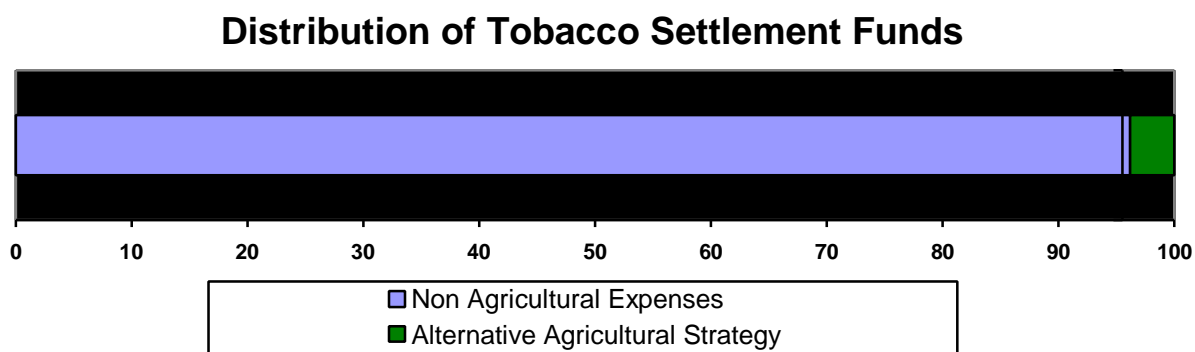
As a result of suggestions from the two input groups, SDG recommends a four year development plan for the strategy with various elements phasing in and out as shown below. An estimated fifth year cost is also included. The \$ 28.9 million budget allows for investments in education, research, market development, and business development all in the agricultural sector. Many of these will support existing programs in agriculture.

Alternative Agricultural Strategy Timetable																
Program Element	Indiana Fiscal Year															
	2002				2003				2004				2005			
Legislature approves and funds strategy 7/1/2001																
Develop organization and communications plan																
Introduce / communicate strategy to public																
Educational programs for individuals / communities																
Funds become available for studies, plans, and staffing																
Establish mentoring program																
Establish grant and loan programs																
Make grants and loans																
Fund research & Development																
Feasibility studies for markets and incubators																
Acquire incubator sites																
Acquire market sites																
Construct incubators, kitchens / sites																
Construct market(s)																
Incubators and kitchens in operation																
Markets in operation																

Shading indicates relative intensity of work to be done

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Over the period 2001 through 2005, Indiana will receive approximately \$ 767 million. The amount of money required to implement this strategy assisting communities, businesses, and farms throughout Southern Indiana is equal to approximately 3.8% of Indiana's total tobacco settlement money received during these four years. A comparison of the costs of the alternative agricultural strategy to other expenditures of the tobacco settlement award is shown below. The alternative strategy is the only program aimed at assisting those with direct and negative economic impacts resulting from recent changes in the tobacco industry.



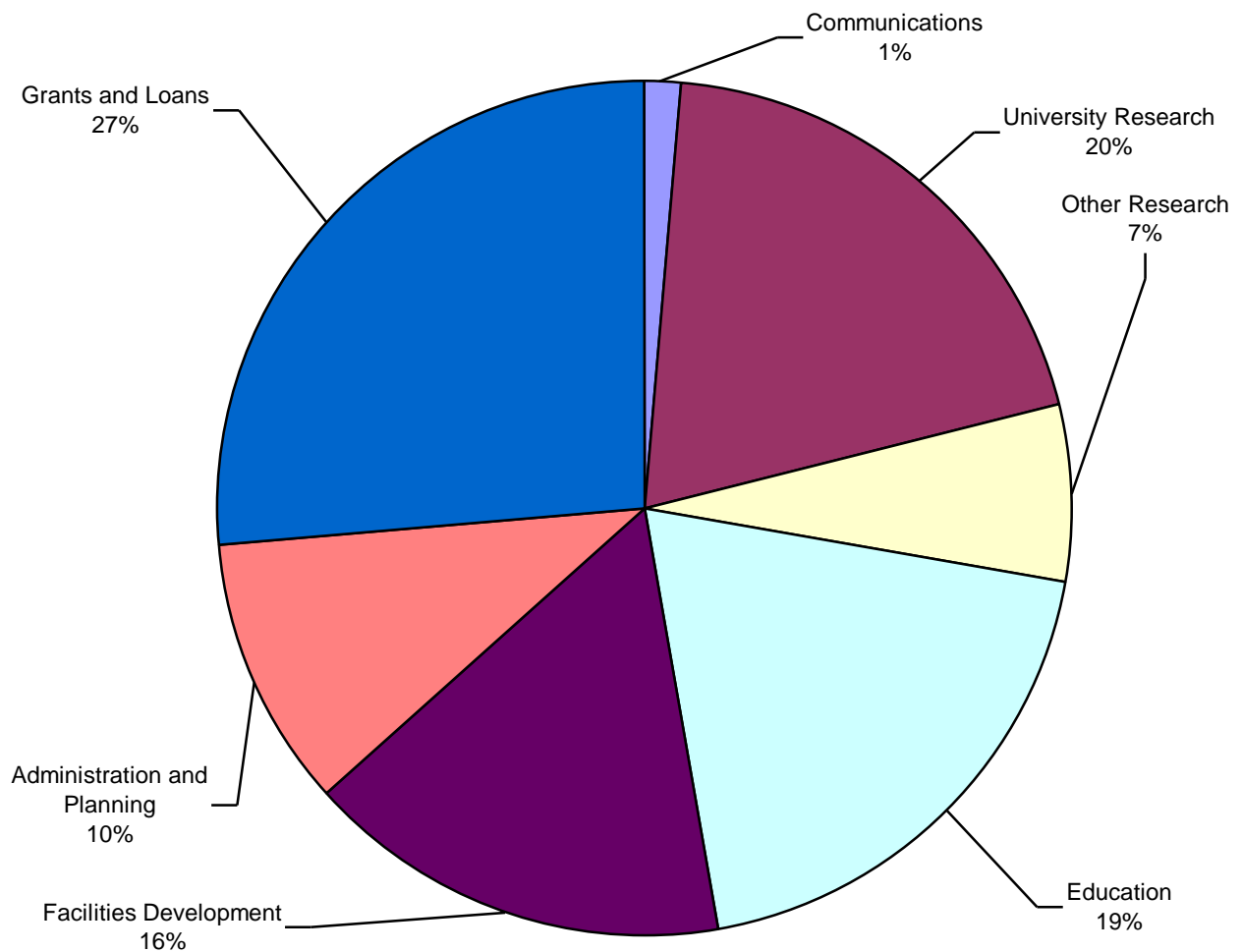
Annually, the program costs will decrease slightly and each year represent a slightly smaller percentage of annual tobacco revenues. Over the four year period, the cost of the program will amount to approximately 23% of the total estimated tobacco revenue over a similar four year period.

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Program Components and Relative Funding

As indicated in the chart below, The largest percentage of the strategy funds will be invested in university research. Other grant programs will expand available research funds to approximately 28% of the total. DISCLAIMER: Other related economic and agricultural programs not included in this report may also exist and which also may require funding.

Distribution of Alternative Strategy Funds



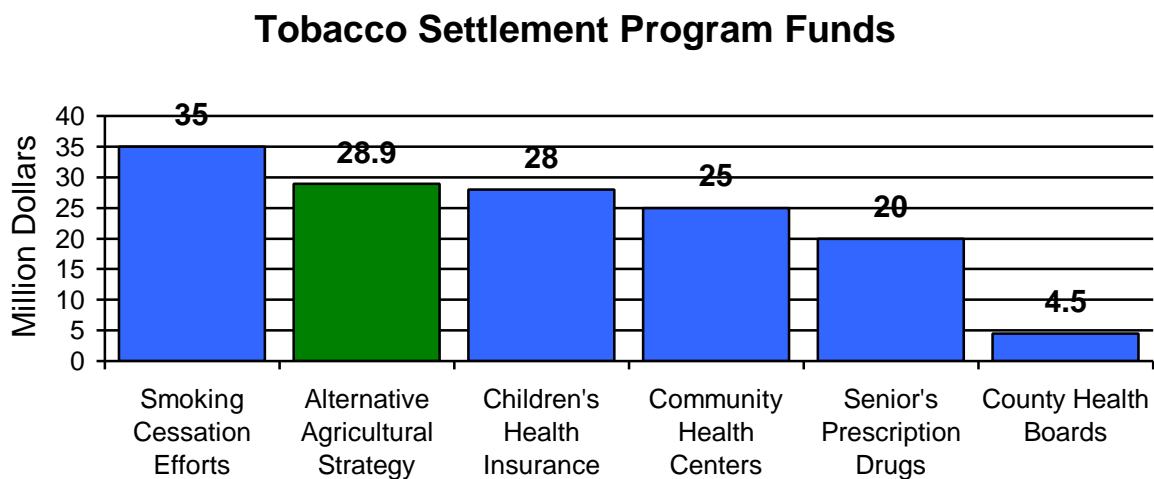
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Program Item	Program Year (Dollars)				
	2002-2003 Biennium		2004-2005 Biennium		
	One	Two	Three	Four	Five
Communications					
Communication plan development	100,000	0	0	0	0
Continuing communication programs	50,000	100,000	100,000	100,000	100,000
University Research					
Purdue / SEPAC / SIPAC	1,500,000	1,500,000	1,500,000	1,500,000	1,000,000
Agricultural Grant Programs					
Innovation and transition grants	1,200,000	1,200,000	1,000,000	1,000,000	300,000
Revolving loan fund	500,000	500,000	500,000	500,000	0
Value added research / product development	500,000	500,000	500,000	500,000	200,000
Value added market development and promotion	500,000	500,000	500,000	500,000	300,000
Education					
Agri-mentoring program	100,000	200,000	100,000	100,000	100,000
Next Generation Scholarships	500,000	1,000,000	500,000	500,000	500,000
Entrepreneurial education and leadership development	250,000	250,000	250,000	250,000	250,000
Facilities Development					
Regional produce / value added market(s)	900,000	0	900,000	0	0
Value added incubators	500,000	500,000	300,000	300,000	0
Certified kitchens @ 100K each	200,000	300,000	300,000	300,000	0
Portable kitchen	100,000	50,000	0	0	0
Certified kitchen sites @50K each	100,000	100,000	50,000	50,000	0
Admin and Planning					
Program administration	150,000	150,000	150,000	150,000	150,000
Incubator / kitchen management	150,000	300,000	350,000	400,000	400,000
VA Market management	100,000	120,000	170,000	250,000	300,000
Overall planning and development	100,000	50,000	30,000	20,000	20,000
Farmers market business plans(s)	250,000	150,000	30,000	30,000	0
Annual Totals (Dollars)	7,750,000	7,470,000	7,230,000	6,450,000	3,620,000
Biennial Totals (Dollars)	\$ 15,220,000		\$ 13,680,000		
Four Year Project Total	\$ 28,900,000				

Alternative Agricultural Strategy

Program Item	Program Year (Dollars)				
	2002-2003 Biennium		2004-2005 Biennium		
	One	Two	Three	Four	Five
Annual Expenditures and Benefits					
Total Program Cost	7,750,000	7,470,000	7,230,000	6,450,000	3,620,000
Cost per Indiana farm affected	3,840	3,700	3,600	3,200	1,800

The several measures of the cost of this proposed alternative compared to other tobacco related expenditures indicate its affordability. As an amount per farm or a percentage of the total, the costs appear reasonable. Compared to program funds which have already been approved, the cost of this strategy also appears modest. As shown below, the ag strategy would rank second in cost compared to the other five, and represents twenty per cent of the total amount in the six tobacco programs combined.



Appendices

Alternative Agricultural Strategy

This chart indicates the full range of economic development activities from which the alternative strategy evolved. Though none of these emerged as a solution in themselves, many are included in the recommended strategy.

Alternate Economic Development Strategy Areas	
Type of Action / Strategy	Implementation Responsibility
Infrastructure Development	
Revolving loan fund for water and sewer projects	Local government
Industrial sites and buildings	Local government, LEDOs, investors
Telecommunications / fiber optics	Local government, utilities
Economic Development Programs	
Entrepreneurship / small business development	LEDOs, SBDCs, universities
Build capacity in local economic development organizations	LEDOs, local government, State of Indiana, Indiana ED Academy, local investors
Business / Industrial recruitment and expansion	LEDOs, local government, chambers of commerce
Agricultural Development	
Diversified alternative, specialty crop production education	Universities, State of Indiana, SBDCs, local farm organizations
Diversified alternative, specialty crop production research	Universities, State of Indiana, private business
Diversified alternative, specialty crop production training	Universities, State of Indiana, Cooperative Extension Service, Farm Bureau, USDA
Regional farmers market	Local farm organizations, chambers of commerce, LEDOs, local government, universities
Value Added agriculture	Universities, State of Indiana, Cooperative Extension Service, Farm Bureau, USDA
CSA (Community Supported Agriculture)	Local farm organizations, chambers of commerce, LEDOs, local government, universities
Education	
Grants / loans to individuals	Universities, State of Indiana
Build local library capacities	Local government
Establish post-secondary training centers (ag and non-ag related)	Universities, voc-tech schools, local school corporations, local government, State of Indiana
Post-secondary education promotion (ag and non-ag related)	Local school corporations, local farm organizations, State of Indiana, universities, voc-tech schools

LEDO: Local Economic Development Organization

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Alternative Agricultural Strategy

Southern Indiana Alternative Economic Development Strategy Overview of Tobacco Issues

Prepared for the Alternatives Economic Development Strategy Steering Committee
December 4, 2000

Expectations of reduced tobacco production in Indiana

Indiana's 1999 burley tobacco production, at 11.7 million pounds, was 31 percent below 1998. Tobacco acreage, at 6,500, was down 24 percent from 1998. The average yield per acre was 1,800 pounds, down 200 pounds from a year earlier.

The top 12 tobacco producing counties in the State of Indiana according to statistics from the U.S. Department of Agriculture are listed below in order of production values.

TOP INDIANA TOBACCO PRODUCING COUNTIES

1	Jefferson	5	Ohio	9	Dearborn
2	Switzerland	6	Franklin	10	Washington
3	Harrison	7	Spencer	11	Jennings
4	Clark	8	Ripley	12	Scott

Jefferson County continues to be the state's leader in total tobacco production with 2,575,000 pounds, followed closely by Switzerland County with 2,573,000 pounds.

The Tobacco Settlement

Under the terms of the 1998 multi-state settlement agreement, the tobacco industry paid Indiana an initial amount of \$49 million in 1998. Beginning in 2000 and each year thereafter, Indiana is scheduled to receive a payment between \$130.8 and \$171.2 million subject to various factors that may increase or decrease the payment.

Indiana is also part of a separately negotiated settlement with the tobacco industry that provides a total of \$5.15 billion to the National Tobacco Growers Settlement Trust Agreement. This settlement, called Phase 2, additionally provides up to \$59.7 million over 12 years directly to Indiana tobacco growers.

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Over the next 25 years, as a result of the National Tobacco Settlement, the State of Indiana will receive nearly \$4 billion. These funds, commonly referred to as Phase I monies, are detailed below.

1998	2000	2001	2002
\$48,955,278	\$130,787,086	\$141,229,043	\$169,574,859
2003	2004 to 2007	2008 to 2017	2018 to 2025
\$171,179,702	\$142,867,821	\$145,703,147	\$163,265,853

Payments detailed above are annual payments; for multiple years, e.g., 2004 to 2007, the noted payments occur within each of the associated years.

Indiana's allocation of its tobacco settlement payments provides \$112.5 million of the tobacco settlement funds in FY 2001. Legislation, which took effect July 1, 2000, allocated \$35 million to smoking cessation and prevention efforts. An executive advisory committee was established to decide how to spend the funds. The committee will have an executive director, four state officials, 11 members appointed by the Governor who have knowledge of smoking cessation or healthcare, and six members from tobacco control groups.

In addition to the tobacco prevention program, the law designates \$20 million for low-income senior citizens' prescription drug costs, \$25 million to community health centers in rural and inner-city areas, \$28 million to children's health insurance and \$4.5 million to county health boards. These allocations are a part of the first-year plan, in which half the settlement payments will be spent and the other half will be invested. In the future, 60% will be available for appropriation and 40% will be invested.

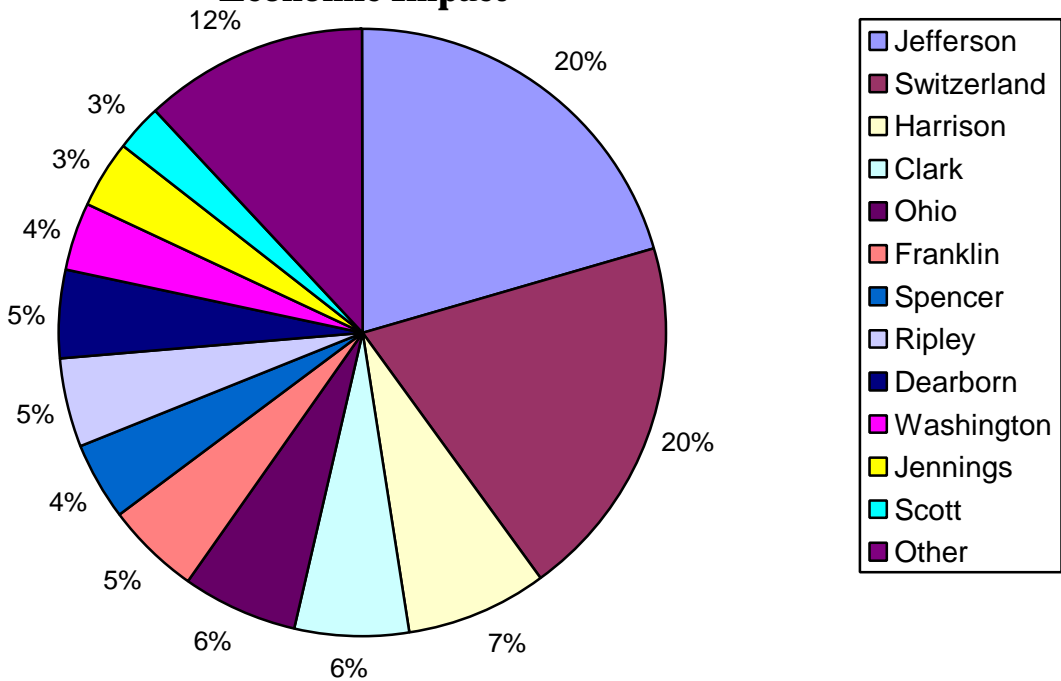
In 1999, Governor O'Bannon supported a legislative initiative to allocate 50% of the initial (1998) and year 2000 settlement payments for the Children's Health Insurance Program (CHIP). The state budget released up to \$47 million dollars of the initial settlement payment for the CHIP program and spent the remaining settlement money in 1999 as part of the state's general fund.

Southern Indiana Alternative Economic Development Strategy
Tobacco Crop Reduction Economic Impacts

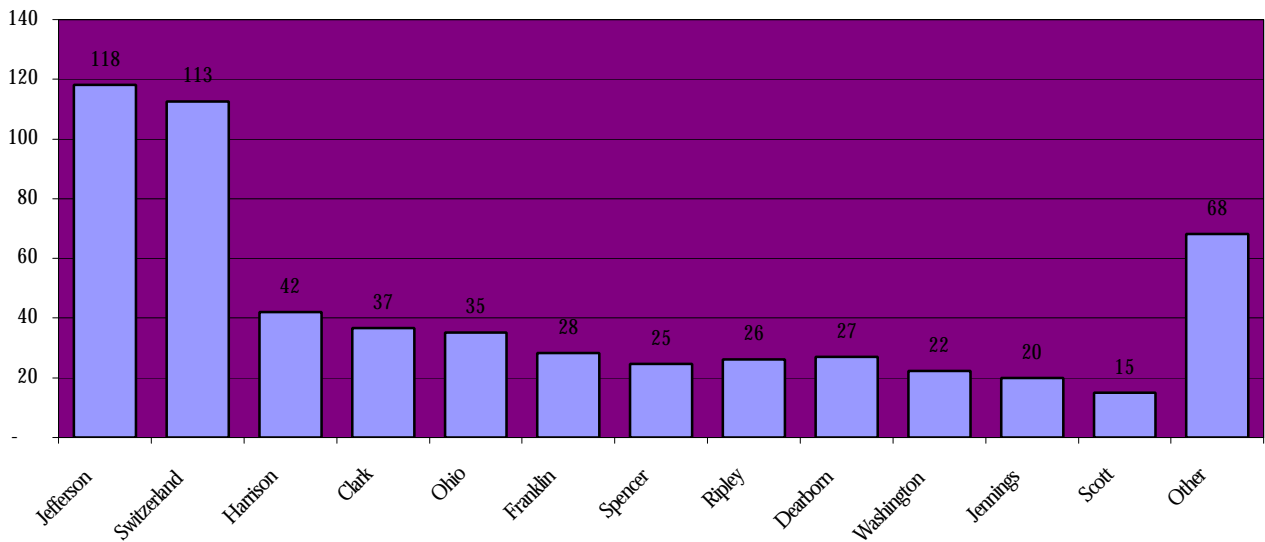
Indiana Tobacco Production, 1997			
<i>Source, USDA Census of Agriculture, 1997</i>			
County	Farms	Acres	Pounds Harvested
Bartholomew	10	139	251,221
Brown	14	40	75,354
Clark	130	612	1,322,013
Crawford	16	45	105,572
Dearborn	97	269	491,910
Fayette	12	35	67,970
Floyd	24	123	242,000
Franklin	132	429	736,930
Greene	24	138	301,405
Harrison	201	655	1,321,117
Jackson	10	59	96,913
Jefferson	433	2,071	4,242,616
Jennings	48	117	321,593
Lawrence	8	63	93,154
Ohio	132	478	935,703
Orange	9	26	53,876
Perry	5	6	16,886
Ripley	105	407	815,207
Rush	6	16	28,646
Scott	52	149	308,462
Shelby	3	12	25,600
Spencer	79	433	1,022,007
Switzerland	366	1,806	3,842,110
Union	3	8	12,994
Warrick	3	7	NA
Washington	77	250	431,047
All other Indiana counties	18	57	NA
Indiana Total, 1997	2017	8507	17,275,291

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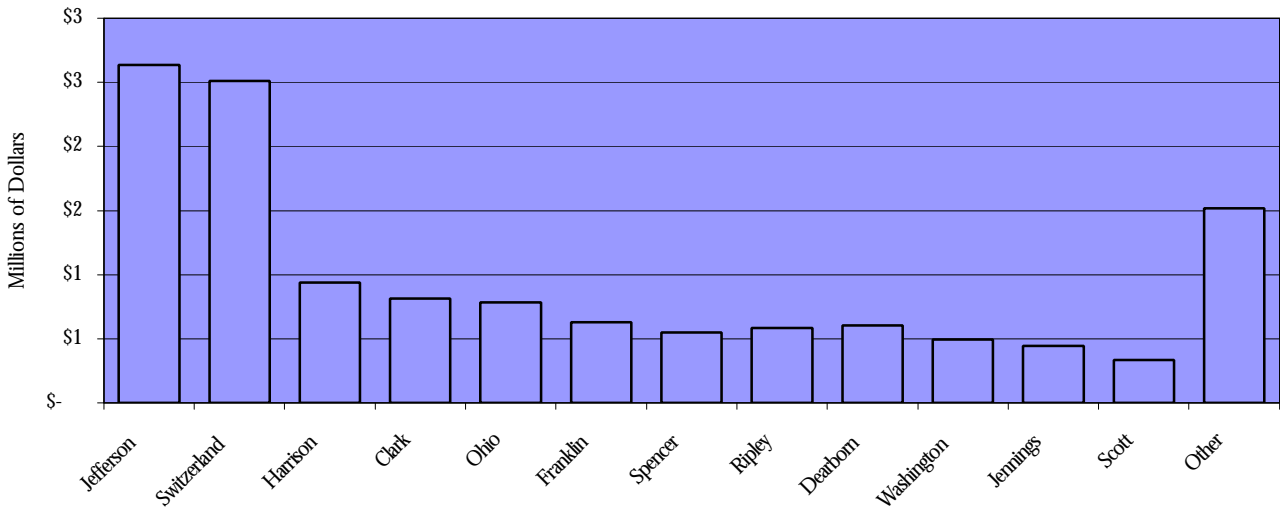
Estimated Distribution of Tobacco Related Economic Impact



Employment Impact of 50 Percent Reduction in Tobacco Production

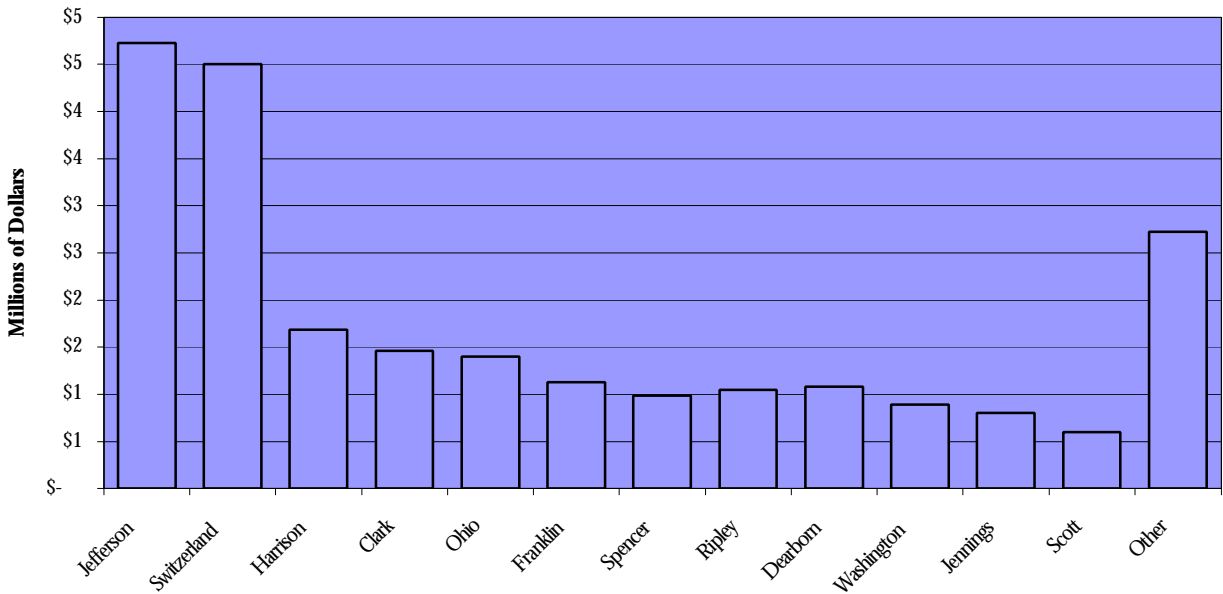


Labor Income Impact of 50 Percent Reduction
in Tobacco Production

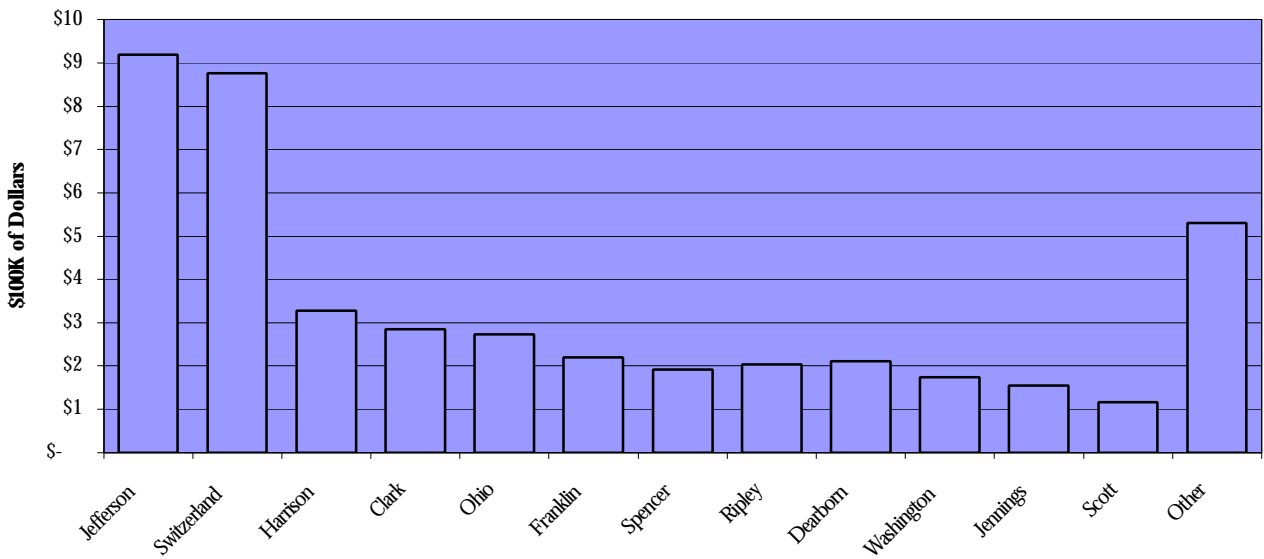


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Output Impact of 50 Percent Reduction
in Tobacco Production



Tax Revenues Impact of 50 Percent Reduction
in Tobacco Production



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<i>Estimated Economic Impacts of 50 Percent Reduction in Tobacco Production</i>				
<i>County</i>	<i>Employment</i>	<i>Labor Income</i>	<i>Industrial Output</i>	<i>Tax Revenues</i>
Jefferson	118	\$2,639,010	\$4,728,477	\$919,286
Switzerland	113	\$2,514,015	\$4,504,516	\$875,744
Harrison	42	\$940,749	\$1,685,599	\$327,705
Clark	37	\$816,416	\$1,462,824	\$284,394
Ohio	35	\$783,295	\$1,403,479	\$272,857
Franklin	28	\$629,281	\$1,127,521	\$219,207
Spencer	25	\$549,890	\$985,272	\$191,551
Ripley	26	\$585,441	\$1,048,971	\$203,935
Dearborn	27	\$604,604	\$1,083,306	\$210,611
Washington	22	\$498,030	\$892,351	\$173,486
Jennings	20	\$446,400	\$799,843	\$155,501
Scott	15	\$335,604	\$601,322	\$116,906
Other	68	\$1,521,698	\$2,726,520	\$530,076
Indiana	576	\$12,864,434	\$23,050,001	\$4,481,259

Source: ICARD Tobacco Study, January, 2000

Summary of Key Issues From the 6-19-00 Indiana Tobacco Grower's Discussion

SIRD's Agricultural Enterprise Development Task Force hosted a dinner meeting for horticulture producers on June 19 at the Clark County REMC. Historic Hoosier Hills RC&D sponsored the dinner. The purpose of the meeting was to bring together Southern Indiana growers to discuss new approaches to improving horticultural production and marketing. The meeting was attended by approximately 30 growers, extension agents and task force members.

Following are the issues that were raised by various attendees during the discussion session that concluded the meeting.

1. The loss of tobacco production was an important topic at the meeting.
2. A regional marketing cooperative could be a great idea.
3. There is a great uneasiness over the markets for non-traditional crops.

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4. Regional farmers who have started raising specialty crops now face the problem of overproduction and how to move the surplus.
5. We cannot depend on local markets to make this new production work; we have to think globally.
6. We need to investigate what other states and regions have done in horticulture.
7. We need access to technical assistance, which we do not have now, for specialty crops.
8. Other states such as North Carolina have invested a lot of money into agriculture, and their impact on the market shows.
9. There is a need for a local growers group to access hydrocooling facilities, which cost up to \$250,000 - especially for wholesale produce.
10. There will be a problem of educating growers and encouraging them to “make the leap”.
11. NxLevel Ag Entrepreneurial Training in partnership with Small Business Development Center in Madison and “Ways to Grow” are excellent programs.
12. We need to develop a model for entrepreneurs and to train extension educators, growers, and others to think “outside the box”.
13. We need to address labor shortages.
14. The family farm will continue to require protection from urban sprawl.

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SIRDP Agriculture Enterprise Development Task Force Meeting

January 10, 2001

Hoosier Energy, Bloomington, Indiana

ATTENDING: Brenda Swartz, Roy Ballard, Jim Casper, Gary Conant, David Swaim, Randy Haymaker, Thayr Richey, Ron Walker, Mark Keillor.

The SIRDP / AEDTF was asked by Thayr to serve as a focus group for the Alternative ED Strategies (AEDS) project. Thayr gave a general introduction to the AEDS project and asked for the TF members to review the primary suggestions for alternate strategies.

Randy Haymaker noted his discussion with Mark Lytle, indicating that Representative Lytle is willing to support alternative ED strategies related to tobacco production decreases, especially if a broad reaching, regional approach can be applied.

Brenda Swartz indicated that whatever programs or services are developed, their development should include a built in assessment mechanism.

Roy Ballard suggested that current programs should lead toward critical future agricultural issues, namely education, training and research related to diversified and alternative specialty crop production.

David Swaim directed the discussion to Community Supported Agriculture. Among the comments, ideas, and suggestions, were:

- ❑ CSA is already a known, but limited, successful effort / concept in Indiana. Training programs and manuals are already in place to help farmers transition into the market. There are several CSA farms in Indiana and there are national and statewide organizations and resources in existence throughout the US.
- ❑ Roy added that CSA has many related economic factors, including agri-tourism and value added ag production.
- ❑ CSA is a variable practice and can be modified or customized to meet geographic conditions, cultural preferences or markets, producer constraints, and institutional customer demands. Numerous different models exist and informational descriptions are available.
- ❑ Potential sources of grant and loan financing for the development of CSA include the Kellogg Foundation and possibly other food industry related businesses and foundations.
- ❑ David and Roy suggested that CSA could be combined with numerous related agricultural development and agricultural education programs. Among these are:
 - Community Certified Kitchens
 - Future Farmers of America (FFA) and Junior Achievement (JA) programs

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- ❑ Much can be accomplished in CSA through community / regional education and marketing and offering start-up training and assistance.
- ❑ The cooperative extension network can provide training to organize local markets. Local farmers markets could be incorporated into the overall CSA program.
- ❑ Strong community ties and support could be established by involving community foundations, especially where the food production / processing could benefit charitable organizations or institutions or needy populations. Community foundations could be tapped as resources to help develop Community Certified Kitchens.
- ❑ Some facilities and capital investments may be necessary for CSA. Examples of investments include:
 - Certified kitchens (and possible buildings to house them)
 - Infrastructure or facilities to house, produce, or process specialty food products.
- ❑ CSA has an element known as "institutional supply". Institutions which would be bulk customers for CSA farms include:
 - Public and private schools and other educational facilities
 - Hospitals
 - Nursing homes
 - State and federal facilities and installations, especially the US Department of Defense
 - Area caterers and other food service businesses.
- ❑ Brenda noted the necessity to be knowledgeable of HACCP (Hazardous Analysis Critical Control Points) regulations. These FDA regs currently apply to food processors, shippers, warehouse, etc. and are likely to affect groceries, restaurants, and others in the future. HACCP helps assure that accepted standards of procedure are adhered to regarding cleanliness, clothing, handling, storing, and other aspects of the "food chain" of events.

In connection with the alternate ED strategy, training programs could be developed for individual HACCP certifications, certification of community kitchens, and other aspects of the CSA/AEDS programs.
- ❑ David and Roy suggested that a CSA program begin with a community education program.
- ❑ Members suggested that a CSA program would have to be supported by other economic development related activities. Among these are:
 - Marketing and communications: community internal and regional external.
 - Assistance in entrepreneurship and small business development:: especially as they relate to the CSA market and producers.
 - Infrastructure development: very limited and targeted to CSA needs.
 - Financial assistance: grants and loans.
 - Education and training: community and other broad education, specific training in CSA operations and methods.
 - Increased informational capacity: local libraries and on line services.

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- Assessment and evaluation: to determine whether or not strategies have accomplished stated goals and objectives.
- There are many known markets for CSA production and participants. Among them are:
 - Nurses and other health care professionals
 - Cultural and religious groups
 - Home school practitioners and networks
- Incentive and personal / professional development programs can further augment CSA efforts. Two cited specifically were the *Master Gardener* program and the *Master Canner* program. Both programs already exist in Indiana.
- A CSA program should be closely tied to the NxLevel Program. This is a combination that could further encourage and incent agri-entrepreneurship.
- The Indiana Vegetable Growers Association would be another resource / ally in the development of CSA programs.
- David and Roy suggested that the strategy include a loan program, which could be used to further develop value added agriculture and/or CSA.
- Thayr suggested that SDG compile notes from the discussion and forward by email to the members present.

The consensus of the group was that an alternative economic development strategy for parts of Indiana affected by tobacco production decreases should contain a major CSA element.

Mark Keillor asked members to review the legislation regarding the tobacco Farmers and Rural Community Impact Fund (IC 4-12-9, chapter 9). Members agreed that it made sense to organize a strategy that aligned with the legislation. At this stage, it appears that a CSA program is among the best strategies to meet all purposes of the legislation.

The TF's information and recommendations will be presented to the AEDS Steering committee on January 12, 2001.

Steering Committee Members

Travis Campbell, Jennings County Economic Development Commission

Gary Conant, Historic Hoosier Hills Resource, Conservation and Development

Susan Craig, Southeastern Indiana Regional Planning Commission

Wendy Dant, Indiana Rural Development Council

Peggy Ehlers, Switzerland County Purdue Extension Coordinator

Mark Eliot, INAAP Reuse Authority

Greg Fitzloff, Southern Indiana Chamber of Commerce

Brian Fogle, Harrison County Chamber of Commerce

Jerry Hay, US Department of Agriculture

Randy Haymaker, Hoosier Energy

Steve Hilton, Washington County Economic Growth Partnership

Randy Johann, MIDCOR

Vickie Kellerman, Indiana Department of Commerce

Chuck Overby, Switzerland County Foundation

Jim Plump, Jackson Co. Industrial Development Corporation

Dave Poole, Dearborn County Chamber of Commerce

Pam Sander, Batesville and Ripley County Economic Development

Mark Smith, River Hills Economic Development District & Regional Planning Commission

Tom Utter, Lincolnland Economic Development Corporation

Darryl Voelker, Harrison County Chamber of Commerce

Anita Walker, Scott County Economic Development Corporation

Thayr Richey, Mark Keillor and Ron Walker, Strategic Development Group

SIRDP Ag Task Force Members

Participating in the Alternative Agricultural Strategy Discussions Were ...

Roy Ballard, Purdue Cooperative Extension Service

Bud Beasley, Jennings County Farmer, Farm Bureau Representative

Jim Casper, Purdue Cooperative Extension Service

Gary Conant, Historic Hoosier Hills Resource, Conservation and Development

Wendy Dant, Indiana Rural Development Council

Jerry Hay, US Department of Agriculture

Randy Haymaker, Hoosier Energy

Chuck Overby, Switzerland County Foundation

David Swaim, Purdue Cooperative Extension Service

Brenda Swartz, IU Southeast

Alternative Agricultural Strategy

Alternative Economic Development Strategies For Indiana Tobacco Producing Counties *Telephone Survey*

1. Do the communities that your organization serves have any plans to address the economic loss due to reductions in tobacco production?

No plans because the impact is not as bad as in other counties. There are only two full time tobacco farmers.

No. We were not even aware that the reductions were going to affect Franklin County.

Harrison County has no plans as of yet. It has only been talked about recently.

Yes, There is a push for and educational approach to the problem. The education will be looking for ways of alternative growing. They call this program “Next Level for Agriculture.” This is a 10 week course designed to educate the farmers on how to make a transition to other types of agriculture.

Not that I know of. Though alternative crops would seem to be the best solution.

There has not been any plan specifically to address the potential tobacco reduction problems. However, I am always looking to help provide benefits to farmers. It is an ongoing process.

Yes, alternative agriculture programs.

None that I am aware of. Tobacco production in Dearborn County is small and concentrated to a few individuals.

Yes. There is an effort of finding alternative agricultural

2. What specifically can YOUR organization do to limit or offset the negative economic impacts from the reductions?

The Chamber of Commerce will act as a resource for those affected in need of assistance or training for development

The Harrison County Chamber of Commerce could work with state programs to do some training. What the SBDC calls “tilling the soil,” which is basically their way of saying alternative agricultural opportunities. The Chamber of Commerce could do some things to provide training to those affected. It is possible that some Harrison County resources could be used for this purpose. All and all, training seems to be the most logical approach.

The Chamber of Commerce plans to help with providing this education.

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The Chamber of Commerce is trying to partner with local leaders to address this problem.

We have not planned anything.

Alternatives assistance as a resource to producers.

We've had training on alternative agriculture to help people be more efficient in old enterprises. We've been looking at the "Ways to Grow" program from Jim Casper (contact information below #4).

Work on implementing alternative crops.

We've worked on alternative enterprises. Tobacco is \$3 - \$3.5 million of Harrison county's economy, so it is not a big factor.

Help with educating the farmers on alternative crops.

Helping farmers produce crops through alternative agricultural programs.

Our Small Business Entrepreneurial Group can offer assistance training and assistance in business ventures. The Chamber of Commerce has formed an Agriculture Committee but I am not aware of any tobacco growers or those holding sizable allotments being members.

Beginning January 8th, they are having NxLevel agricultural program. They have two certified instructors, one that is a retired banker and then another from Purdue. They use the phrase "Tilling the Soils of Opportunity." They focus on the aspects of running a business as it pertains to agriculture. There is a focus on alternative crops to tobacco. This is the second class that is being held.

3. What approaches do you recommend be developed in response to the economic losses felt by tobacco reduction? {business development, infrastructure improvement, education and training, alternative crops}

Business development, alternative crops (cucumbers?). Making storage areas for other crops.

The best approach is to train the involved people. Harrison County has a large amount of its crops in popcorn. It would not be feasible to take a tobacco farmer and just tell them to grow popcorn instead. Training these farmers how their land can be used for popcorn growing (likely by some other farmer) would be desirable and then perhaps helping these people get into some of the manufacturing opportunities within the county. Again, Harrison County may be able to carry some of this burden.

All of the above. But to achieve these education has been the first step. The Madison area SBDC is the first in Indiana to stage the "Next Level for Agriculture" course.

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To help develop alternative crops or any other needs that could be grown on these acres.

Education in commodity marketing. Input buying group.

Education and training, alternative crops, developing markets and helping people work together.

Alternative crops. Education. Programs such as “Ways to Grow” have been looked at.

Alternative Enterprises. Adult education programs that will develop marketable skills. This sort of training should be available to all those affected by the cutbacks.

Infrastructure needs to be better developed to help those growing alternative crops.
Alternative crops. Education for alternative employment.

I am not an expert in this field, but since the actual growers have been successful in engaging those diverse individuals holding allotments, they (the growers) would appear to be entrepreneurial in nature. I would suggest education and development in these skills, as well as alternative crops, would be useful.

education and training

4. What other areas should southeastern Indiana focus on in developing a strategy to recover from the loss of tobacco production? {entrepreneurship, value-added agricultural programs, capacity building of local economic development organizations}

Providing farmers with a market for their alternative crops.

Harrison County cannot make a value-added approach work on their own. In addition, with value-added, only two to three jobs can be added.

The areas as a whole needs to focus more on education to help those affected make their transitions.

Development of value-added agricultural programs.

Value-added/processing. Additional commodity markets.

You may want to contact Jim Casper on his “Ways to Grow” program (812-926-0406).

Franklin County has some rough land down in the southern portions and this is where much of the tobacco is grown. It will be difficult to get some other crops to grow there. What is needed is some industry. There are many people moving into the area from the Cincinnati area.

Market the natural resources assets that are in Southern Indiana.

Alternative Agricultural Strategy

All of the above examples.

Value-added.

Financial and mentoring management training in the field of entrepreneurial business would be my best suggestion.

5. Do you have any other thoughts regarding an economic development strategy for southeastern Indiana?

Will look into the issue further and would like to be of help if it is needed.

Perhaps making a connection with Indiana Rural Development Commission would helpful in moving forward on these issues.

The area is looking hard for funding. In addition, they have a 40,000-sq/ft-incubator facility that could be used to process crops and/or package produced products.

Tobacco is one aspect of southeastern Indiana's farmers' income. However, many of the farmers need to become better record keepers and marketers of their commodity crops.

Since tobacco has the highest yield in terms of profit, there should be a push to try and make alternative crops yield more profit.

I have heard that rather than reductions, this year there will be a slight increase in the demand of Indiana tobacco.

Better roads, and affordable communication infrastructure, along with the presence of a University would be open opportunities for everyone.

Alternative Agricultural Strategy

Alternative Economic Development Strategies For Indiana Tobacco Producing Counties *Tobacco Growers and Quota Holders Telephone Survey*

1. Do you plan to continue growing tobacco?

71%	29%

2. Is tobacco growing your primary source of income?

29%	71%

2a. What percentage of income does tobacco represent?

85%	25%	44%

3. Do you plan to replace income lost due to a reduction in tobacco allotments?

71%	29%

3a. If yes, how do you plan to replace the lost income?

	SELL OR DEVELOP LAND		
0%	0%	33%	60%

4. Other comments?

The tobacco settlement money should be distributed just to those who grow tobacco.

Many farmers sold their leases when reductions were made, yet they are still receiving settlement money. This money should not be given to them, because it is the other tobacco farmers who spent money to buy leases.